



Audit Report

OFFICE OF THE INSPECTOR GENERAL

MERGED ACCOUNTS OF THE DEPARTMENT OF DEFENSE

Report Number 92-028

December 30, 1991

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The following acronyms are used in this report.

AFSC.....	Air Force Systems Command
ASD.....	Aeronautical Systems Division
DARPA.....	Defense Advanced Research Projects Agency
DCMAO.....	Defense Contract Management Area Office
DFAS.....	Defense Finance and Accounting Service
DLA.....	Defense Logistics Agency
DMA.....	Defense Mapping Agency
GAO.....	General Accounting Office
"M" account.....	Merged account
OMB.....	Office of Management and Budget
RDT&E.....	Research, Development, Test and Evaluation
SSD.....	Space Systems Division
STARS.....	Standard Accounting and Reporting System
Treasury.....	Treasury of the United States
U.S.C.....	United States Code
WHS.....	Washington Headquarters Services



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

December 30, 1991

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Merged ("M") Accounts of the Department of Defense (Report No. 92-028)

This audit report is provided for your information and comments. It addresses the validity of obligations in DoD's Merged ("M") Accounts. The report summarizes the results of audits at three Defense agencies and the Services. We concluded that DoD's "M" accounts were materially misstated, and that requests for restorations from the Treasury were not always necessary.

The report was prepared in response to the National Defense Authorization Act for FY 1991. The Act requires that the Secretary of Defense submit a report to Congress not later than December 31, 1991. We request your comments on this final audit report by February 19, 1992.

The courtesies extended to the audit staffs of DoD and the Services are appreciated. If you have any questions about this audit, please contact Mr. Terry L. McKinney at (703) 614-1692 (DSN 223-0430) or Mr. Richard B. Bird at (703) 693-0476 or (DSN 223-0476). The planned distribution of this report is listed in Appendix K.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosure

cc: Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Air Force (Financial
Management and Comptroller)

Office of the Inspector General

AUDIT REPORT NO. 92-028
(Project No. 1FE-3001)

December 30, 1991

AUDIT REPORT ON MERGED ("M")
ACCOUNTS OF THE DEPARTMENT OF DEFENSE

EXECUTIVE SUMMARY

Introduction. This is our final report on the Audit of Merged ("M") Accounts of the Department of Defense, provided for your information and use. Responses to reports prepared by the Assistant Inspector General for Auditing, DoD, and the Service audit agencies, and to the draft of this report, were considered in preparing this report. The Office of the Assistant Inspector General for Auditing, DoD; the Army Audit Agency; the Naval Audit Service; and the Air Force Audit Agency performed the audit between January and July 1991 as required by Public Law 101-510, the National Defense Authorization Act for FY 1991. The primary audit objective was to determine the validity of unliquidated obligations in DoD's "M" accounts as of November 4, 1990. We also reviewed the DoD Components' requests for restorations to the "M" accounts, provided for by the Act.

Audit Results. The overall conclusion of the audit was that "M" account balances as of November 4, 1990, were materially misstated. The accounts were inadequately managed and vulnerable to abuse, as shown by the Services' unsupported requests for restorations. The DoD Comptroller reported a balance of \$18.8 billion in "M" accounts as of November 30, 1990 (see Appendix B). Using statistical sampling techniques, we reviewed \$16.1 billion, or 86 percent of the reported balance. Our review showed that only \$8.1 billion, or 50 percent of the obligations was valid. The remaining \$8 billion was invalid and should be deobligated (see Appendices C and D). The dissolution of "M" accounts by the Congress should improve the accounting structure and accuracy of accounting for funds within DoD.

o The audit disclosed several reasons why reported obligations in DoD's accounting records do not accurately reflect the status of accounts. Air Force departmental records understated obligations by \$649.1 million. We noted \$1.8 billion of "M" year undistributed Treasury disbursements. The DoD accounts had about \$1 billion in recorded negative obligations. Negative balances were caused by improperly posted disbursements and possible duplicate payments. Additional funds may be needed to cover negative unliquidated obligations if they have been properly posted.

o Several appropriations were overdisbursed. The National Guard and Reserve Equipment, Marine Corps; the Reserve Personnel, Navy and Air Force appropriations; and the Research, Development, Test and Evaluation (RDT&E), Defense Agencies appropriation were overdisbursed and had not been corrected. The Marine Corps appropriation had a negative balance of \$2.4 million. The Reserve Personnel, Navy appropriation had a negative balance of \$1.3 million. Similarly, the Reserve Personnel, Air Force appropriation was overdisbursed by \$1.6 million. For FY 1990, the "M" year appropriation for RDT&E, Defense Agencies and the Air Force subaccount had yearend negative balances of \$56.8 million and \$39.4 million, respectively. Most of the overdisbursed obligations were attributed to incorrect posting and undistributed Treasury disbursements that had not been corrected.

o The Treasury guidance provided for restorations to cover obligation adjustments that occurred between October 1 and December 5, 1990. After DoD Comptroller disapproval of an initial request for excessive restorations, the Components requested restorations of about \$2.4 billion to comply with bona fide need guidelines issued by the Office of the Secretary of Defense. Our review of restorations showed that over half of the restorations requested were unsupported or were for obligations not incurred or recorded in accounting records during the period for which the Treasury provided. We found that only \$846.5 million should have been restored under the Treasury guidelines. The DoD Comptroller approved a final restoration of \$1.7 billion from DoD's \$31 billion merged surplus fund of the Treasury. Approved restorations were based on additional documentation submitted by the Services and included funds to cover obligations unrecorded in accounting records, and obligations incurred before October 1990 or after December 1990. The Comptroller also directed, however, that controls be established to ensure the prudent use of the funds. We are quite concerned that the official DoD accounting records were considered so inaccurate that the Comptroller felt it necessary to request restorations to cover obligations identified by the Military Departments through means other than the official accounting records.

Potential Benefits of Audit. Recommendations in this report, if implemented, will result in compliance with regulations and improved economy and efficiency of operations. By limiting restorations to valid obligations recorded in official accounting records, \$.9 billion of the restored funds would not be used (see Appendix I). We believe that sufficient funds are currently available to the Components through deobligation of invalid balances to cover any additional obligation requirements. The

supplementary audit reports listed in Appendix H give details of additional monetary benefits from the deobligation of "M" year funds.

Summary of Recommendations. Recommendations contained in this report will contribute to compliance with current laws and regulations. We recommend that the Comptroller of the Department of Defense deobligate accounts with unsupported or invalid balances; that accounts with negative balances not be canceled, but converted to receivables; that Treasury restorations be withheld pending full justification and approval of unrecorded obligations; and that no restorations be made to overdisbursed accounts until the accounts are balanced or formal antideficiency reviews are completed. We also recommend that the Comptroller begin a program to reduce DoD's unmatched disbursements, and require antideficiency reviews for overdisbursed appropriations; that the Air Force's departmental records be corrected to match field activity records; and that the Air Force Systems Command reverse all improper accounting adjustments identified in this report.

Management Comments. The Deputy Comptroller (Management Systems) of the Department of Defense generally agreed with our findings. The Deputy Comptroller disagreed with our comments on the DoD restorations of funds from the Treasury. The areas of disagreement are the time frames during which valid obligations should be restored and the propriety of using restorations to fund obligations that are not supported by official accounting records. The Deputy Comptroller partially agreed with our recommendations. See page 21 for our Summary of the Deputy Comptroller's comments and the reasons we feel some restorations were not appropriate.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the IG, DoD Audit Planning and Technical Support Directorate at (703) 693-0340.

PART I - INTRODUCTION

Background

Merged ("M") Accounts were established in 1956 so that agencies could pay obligations associated with activities for which no current unexpired appropriations existed. Two years after an appropriation expires, the remaining obligated portion of the appropriation is merged into an account with other unliquidated obligations that remain available until the obligations are liquidated. "M" account balances can be supplemented to meet upward adjustments in obligations by using unobligated portions of DoD's lapsed appropriations that have been returned to the Treasury of the United States. Congress increased its oversight of these accounts in 1989. The National Defense Authorization Act (the Act) of FY 1991 will phase out merged accounts by establishing a transition period. All obligations that lapsed in 1983 or earlier were to be canceled by March 6, 1991. All remaining unliquidated obligations will lapse after 5 years and will be canceled at the end of each fiscal year. Current appropriations will not lapse but will remain available for upward adjustments for 5 years. Additional upward adjustments made after the expiration period must be paid from current funds. Pertinent sections of the Act are included in Appendix A.

DoD had the authority to restore funds that had not been obligated, but had been withdrawn into the Treasury merged surplus authority accounts. These funds could be restored to the "M" accounts for the payment of upward adjustments to obligations that were previously incurred. The Act also provided for a one-time restoration of lapsed funds from the Treasury merged surplus to cover obligation adjustments that occurred between October 1 and December 5, 1990. DoD's initial restoration request was for \$2.9 billion. This amount was reduced to \$2.4 billion after the Comptroller of the Department of Defense challenged the initial request. The Comptroller later approved a restoration of \$1.7 billion. Additional information is provided in the Results of Audit section, Part II.

Objectives

The National Defense Authorization Act for FY 1991, Section 1406, requires an audit of each merged account within DoD established under United States Code, title 31, sec. 1552(a). For each merged account, the audit should identify:

- o the account balances as of November 4, 1990;

- o the amounts required to meet valid obligations and the amounts considered to be no longer valid;
- o the sources and amounts of funds by fiscal year;
- o the average length of time funds have been obligated;
- o the average size of an obligation; and
- o the object classification of each obligation.

Our primary objective was to determine the validity of obligation balances in merged accounts established by the Department of Defense. During the audit, we were asked by Congressman Andy Ireland to review the status of restorations of funds from the Treasury. Accordingly, a secondary objective of the audit was to determine the validity of DoD's requests for restorations from the merged surplus fund of the Treasury.

Scope

The scope of this financial related audit was set by the National Defense Authorization Act for FY 1991. Since DoD's automated accounting systems could not provide midmonth data, to establish the value of "M" accounts, our results were adjusted to reflect month-end data for November 1990. The Office of the Inspector General, Department of Defense (IG, DoD), Assistant Inspector General for Auditing, audited three Defense agencies, reviewed restoration requests for all DoD Components, and managed the joint audit. The Defense agencies audited were the Defense Advanced Research Projects Agency (DARPA), the Defense Logistics Agency (DLA), and the Defense Mapping Agency (DMA). The audit agencies of the Army, the Navy, and the Air Force reviewed their respective Services. Collectively, we issued 46 audit reports (see Appendix H). Copies of these reports can be obtained by contacting the addressees listed in Appendix H.

During the audit, the IG, DoD, and Service audit agencies visited 211 locations. These locations included the Office of the Comptroller, DoD; 4 Defense Finance and Accounting Service (DFAS) Centers; 19 major commands; 155 finance and accounting offices; and 32 DLA contracting activities. Appendix J lists the activities visited or contacted. The audit was conducted between January and July 1991.

Limitations. We did not evaluate internal controls, the propriety of obligations, the reliability of computer-processed data, or the implementation of the Federal Managers' Financial Integrity Act. We reviewed the financial statements and supporting documentation for balances of unliquidated obligations in merged accounts.

The Inspector General, DoD, Inspection Report No. 90-INS-05, "Department of Defense Merged Accounts," issued March 22, 1990, reported significant internal control weaknesses in the management of DoD's merged accounts. These weaknesses included inadequacies in oversight, review, reconciliation, accounting data, and documentation. Due to the work required to verify the balances in merged accounts, we did not identify specific causes of all the deficiencies noted during the audit. However, we believe that the inspection report accurately describes existing conditions and related causes.

Auditing standards. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD.

Sample Selection Criteria

As of November 30, 1990, DoD's "M" accounts had a balance of over \$18.8 billion. Appendix B shows the "M" account balances by appropriation and Component. Our audit concentrated on Defense Procurement; Defense Operation and Maintenance (O&M); and Defense Research, Development, Test and Evaluation (RDT&E). These appropriations totaled \$17.3 billion, or 92 percent of DoD's "M" account balances. Because of Navy and Air Force adjustments discussed below, we made our statistical projections to \$16.1 billion, or 86 percent of the total "M" account balance. Of the \$16.1 billion, our sample included obligations of \$5.2 billion (32 percent).

We statistically selected 3,183 unliquidated obligations for review. Each Service audit agency selected its own sample, but a stratified three-stage cluster was generally used to select our sample. In the first stage, major commands or Defense agencies were selected. In the second stage, finance and accounting activities were selected by major geographic location. During the third stage, all unliquidated obligations were stratified by dollar amounts and specific obligations were randomly selected for review.

Navy sample. Navy auditors differed slightly in their sample approach. Their sample was selected directly from the Navy's centralized Standard Accounting and Reporting Systems (STARS). However, data on the Navy Shipbuilding and Conversion appropriation for FY's 1980-1984 were inadvertently excluded from the sample. These data, supporting about \$1 billion in obligations, were not provided to the auditors due to an oversight. We adjusted the amount in the DoD "M" account to compensate for the exclusion. To fully comply with the intent of Public Law 101-510, the Navy auditors are currently reviewing

unliquidated obligations associated with the \$1 billion. They will issue a separate report when their review is complete.

Air Force sample. During the audit, the Air Force auditors found \$220 million relating to six obligations that they could not determine to be valid or invalid. Instead of classifying them as invalid, the auditors deleted these line items from the sample. Accordingly, we adjusted DoD's "M" account balance (our universe) by \$220 million.

Prior Reviews

Both the General Accounting Office (GAO) and the Inspector General, DoD, have examined merged accounts.

GAO reviews. GAO has recently issued four reports pertaining to DoD's "M" accounts:

- o "Expired Appropriations: New Limitations on Availability Make Management by DoD Essential," GAO Code No. 392526, March 1991;
- o "Financial Reporting and Internal Controls at the Air Force Systems Command," GAO/AFMD-91-22, January 1991;
- o "Lapsed Accounts: Army, Navy, Air Force 'M' and Merged Surplus Authority Account Balances," GAO/NSIAD-90-170, May 1990; and
- o "Air Force Records Contain \$512 Million in Negative Unliquidated Obligations," GAO/AFMD-89-78, June 1989;

The GAO reports documented a large increase in the use of DoD merged surplus authority and recommended that management strengthen restoration procedures by monitoring the reasons for increased payments to contractors. DoD is implementing these recommendations.

Inspector General, DoD. During 1990, the IG, DoD, Inspection Report No. 90-INS-05 identified 13 areas in which management should improve the fiscal control and management of merged accounts. These problem areas included:

- o systemic problems with reconciliation and validation, oversight, and policy;
- o inaccurate unliquidated balances because of the inclusion of credit unliquidated obligations;
- o inadequate or inconsistent reviews;

o lack of command emphasis and routine quality assurance; and

o inadequate accounting data because of weak internal controls and poor recordkeeping.

Management agreed with the report but did not make sufficient resources available to ensure corrective actions in all cases. We observed similar problems; however, we also noted that DoD finance and accounting personnel were working towards compliance.

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PART II - RESULTS OF AUDIT

Valid/invalid obligations

DoD's "M" Account balances were materially misstated. "M" account balances presented an inflated picture of DoD's unliquidated obligations. Using statistical sampling techniques, we determined that only \$8.1 billion, or 50 percent of the "M" accounts reviewed (\$16.1 billion), represented valid obligations. The remaining \$8 billion in obligations was invalid and should be deobligated (see Appendices C and D). Details follow:

STATUS OF DOD'S "M" ACCOUNTS

Reported Nov 30, 1990 balance	Amounts		
	Reviewed	Valid (\$ millions)	Invalid
Army	\$ 3,530	\$ 3,326	\$ 901
Navy	8,319	6,501	3,656
Air Force	6,440	6,056	3,335
Defense	528	178	116
Totals	<u>\$18,817</u>	<u>\$16,061</u>	<u>\$8,008</u>

From the \$18.8 billion reported balance, our audit concentrated on major subaccounts of Defense Procurement; Defense Operation and Maintenance (O&M); and Defense Research, Development, Test and Evaluation (RDT&E). These accounts totaled \$17.3 billion. The \$17.3 billion was then adjusted by \$1.22 billion. Navy data omitted \$1 billion in the Navy Shipbuilding and Conversion appropriation; data on these funds were not provided to the auditors. Similarly, we excluded \$220 million in appropriations that could not be reconciled by Air Force auditors. Using statistical techniques, we reviewed \$16.1 billion of the \$18.8 billion reported to the Treasury. Our sample included 3,183 obligations amounting to \$5.2 billion. Obligations with both positive and negative balances were reviewed. Of the \$5.2 billion, we determined that \$2.9 billion was valid and \$2.3 billion of reported obligation balances was invalid (see Appendix C). Of the invalid obligations, \$556 million had been paid but not posted to DoD accounting records. Since these funds had been expended, they were not considered available for reobligation. We considered unliquidated obligations to be invalid when:

- o balances were not supported by adequate documentation;
- o disbursements were improperly posted;
- o no disbursements had been made from the account during the last 2 fiscal years, and there was insufficient documentation to review the unpaid balance in more detail;
- o final payment had been made or funds were no longer required, and the remaining balance had not been deobligated; and
- o the paying office had made disbursements, but the finance and accounting office had not posted the disbursements by November 4, 1990.

Invalid obligations, both large and small, existed throughout DoD for a number of reasons. Of the 3,183 obligations reviewed, we found that 1,490 were valid, 1,232 were invalid, and 461 contained both valid and invalid amounts. Many of the obligations were invalid for multiple reasons. Of the invalid obligations, 466 were not supported by adequate documentation. For example, at one audit location an unliquidated balance of \$259,590 could not be supported because the file contained only the original FY 1987 obligating document for \$690,000. At this location 100 items totaling \$1.3 million were reviewed. For 18 of the 100 items, we did not find supporting documentation in the contract files, accounting files, or disbursing files.

We found that 700 obligations were invalid because disbursements had been improperly posted. For example, one obligation reviewed had a negative balance of \$226,321. For this obligation, we found disbursements of \$407,000 that should have been posted to another contract. The obligation had a positive balance when the postings were corrected.

For 153 obligations, no disbursements had been made in the last 2 fiscal years, and there was insufficient documentation to review the unpaid balances in more detail. At one installation, an obligation of \$312,437 had no disbursements posted since October 1984.

We found that 547 obligations existed for contracts that were closed or about to be closed; funds were no longer required for these contracts. One location visited had a contract with an unliquidated balance of \$1.8 million, although we found a final bill for \$346,000. The remaining \$1.4 million had not been deobligated. At another audit location, about \$17 million was no longer valid; however the finance and accounting office had not received the appropriate documents to deobligate the funds.

For 475 of the invalid obligations, payments had been made and the finance and accounting office had not posted these payments. A contract at one location had a balance of \$82,840; however, we found disbursements of \$76,987 that had never been posted. Therefore, only \$5,853 remained available for payment.

Issues Related to the Validity of Account Balances

The audit disclosed that the accounting and finance data within the Defense community were not accurate. We found that a significant number of negative obligations existed, billions of dollars in disbursements had not been matched to obligations, and four appropriations may be in violation of the Antideficiency Act, U.S.C., title 31. Due to the nature of the "M" accounts and loss of fiscal-year data, posting the accounting data is difficult, and the potential for problems increases. After balances are merged, payments are difficult to match with supporting obligation balances, and accounting personnel have difficulty in matching disbursements to obligations. The following deficiencies were common to the accounting records reviewed.

Negative unliquidated obligations. We reviewed unliquidated "M" accounts obligations with negative balances of about \$1 billion. The unliquidated obligation balances were computed by finance and accounting personnel using the value of recorded obligations less posted disbursements. When disbursements are made without determining if a valid obligation exists, the result is often an overdisbursed condition.

Army. During our review of Army's obligations, we omitted all negative balances from our sample. We were told that the negative Army accounts consisted primarily of progress payments on contracts and had been compensated for. The total value of the Army's negative accounts was undetermined; however, we found \$525 million at the locations we visited.

Navy. In the Navy, we found \$136.6 million in negative obligations out of \$3.7 billion in unliquidated obligations reviewed. Of the negative obligations, we randomly selected \$85.5 million for further review. Our review showed portions of the obligations to be positive. A net total of positive \$2.4 million was found to be valid, and a net total of negative \$87.9 million was invalid.

Air Force. The Air Force sample included \$237 million in negative obligations out of \$977.1 million in obligations reviewed. At Los Angeles Air Force Base, one contract line item had a negative balance of over \$52 million. The status report

from the paying office showed a zero balance; however, a \$49 million adjustment had not been posted to Air Force accounting records. We could not determine from available documentation the rationale for the remaining \$3 million negative balance. The entire \$52 million was considered invalid, based on the paying office's reported balance.

Defense agencies. Of the three Defense agencies reviewed, DARPA had the largest number of accounts with significant negative balances. The DARPA universe was valued at \$46.2 million. DARPA's accounts contained \$87.5 million in positive obligations and \$41.3 million in negative obligations. Reviews of individual accounts showed numerous line items with negative balances. For example, DARPA accounts at Los Angeles Air Force Base contained a negative unliquidated obligation balance of \$4.9 million. Research showed that payments had been posted to the wrong fiscal year, resulting in a negative unliquidated obligation. DLA had \$5.8 million in negative obligations, and DMA had none.

Negative balances distort the total "M" account balance and may be caused by unrecorded obligations, incorrectly coded or duplicate payments, or incorrectly posted accounts. "M" accounts, including those with negative balances, are to be canceled by the end of FY 1993. We believe that accounts with negative balances should not be written off without reconciliation; instead, these accounts should be treated as receivables, since they may have been caused by overpayments and may contain refunds due to the U.S. Government. For example, when one item with a negative balance of \$54,100 was reconciled, we found that a payment of \$14,700 had been erroneously posted to the account three times, and a \$10,000 payment was posted against the item although it belonged to another line item. Another example showed a negative balance of \$2.8 million. Causes included a duplicate payment of \$22,000, refunds of \$170,000 that were never posted to the account, and a negative unliquidated obligation of \$2.7 million that was valid, confirming that the contract line item was overdisbursed.

Undistributed disbursements. Undistributed disbursements are defined by the "Department of Defense Accounting Manual", DoD Directive 7220.9-M, dated August 31, 1990, as "the differences between disbursements reported to the operating level by the finance network and those disbursements accepted by the operating level." As of November 1990, the Treasury reported \$2.3 billion in unreconciled check payments and reconciliations for DoD accounts over 180 days old. Although the Treasury report did not identify the payments by fiscal year, we believe that most of these unreconciled payments were "M" account transactions and contributed to DoD's problems with undistributed disbursements.

The "Treasury Financial Manual for Guidance of Departments and Agencies," Volume 1, July 5, 1991, states, "Agencies are required by OMB Circular No. A-11 to bring their budget submissions into agreement with data to be published by the Budget Reports Branch in the U.S. Government Annual Report." To help DoD agencies meet this requirement, the Comptroller of the Department of Defense maintains a line item for an undistributed figure in its subsidiary ledger. This figure is the difference between what the Treasury reports as disbursed and what DoD reports as its expenditures against allotted appropriations. The figure is "plugged" to make the balances agree. Undistributed discrepancies exist for several reasons.

o Accounting offices are responsible for monitoring and making payments, but may not have the authority to issue their own checks. Therefore, they rely on neighboring disbursing offices to provide this service. Payment data must then be returned to the responsible accounting office after the check is issued. However, payment data are not always returned.

o DoD has no standardized automated system and procedures for accounting and disbursing. When a disbursing activity makes payments for an accounting activity, manual processing of paid vouchers and mailing printed copies takes time. Central finance and accounting offices process the vouchers before mailing them to the finance and accounting activities at installation level. If paid vouchers contain incorrect accounting data, the process takes longer; in some cases, the voucher is never identified to the proper activity or account.

o The Defense Finance and Accounting Service relies on data provided by Defense Contract Management Area Offices (DCMAO's). The DCMAO's are contract support activities which administer DoD's largest contracts, usually without access to official accounting records. Payments are often posted incorrectly. At least \$1.8 billion in undistributed and cross-Service (funds obligated by one DoD Component and paid by another) "M" year disbursements had not been posted to DoD accounts. For example, a comparison of DCMAO and finance and accounting records showed that one contract line item was overdisbursed by \$4.8 million, and contained an additional \$1.1 million in disbursements that had not been posted to accounting records. We noted \$521 million in unmatched transactions for the Defense agencies reviewed. The Army had \$769 million in unmatched disbursements. The Navy's invalid obligations included over \$514 million in undistributed disbursements. Air Force auditors did not consider undistributed disbursements during their review; however, our subsequent review

of the Air Force's Treasury restorations showed that about \$43 million in undistributed and in-transit payment adjustments exist.

The existence of \$1.8 billion in undistributed disbursements greatly reduces the integrity of financial systems and makes the DoD's \$18.8 billion in merged accounts questionable.

Overdisbursed appropriations. The audit showed that four appropriations (Reserve Personnel, Navy 17M1405; National Guard and Reserve Equipment, Marine Corps 97M0350B; Reserve Personnel, Air Force 57M3700; and Research, Development, Test and Evaluation, Defense Agencies 97-0400) were overdisbursed as of November 30, 1990. The significance of a negative (overdisbursed) account balance is that it appears to be a potential violation of the Antideficiency Act, U.S.C., title 31, sec. 1341. DoD Directive 7200.1, "Administrative Control of Appropriations" implements the Antideficiency Act. The Directive states, "An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation." Although the Directive requires activities to submit interim reports on suspected or apparent violations, potential antideficiency violations were not reported. Neither the Navy, the Marine Corps, Washington Headquarters Services, nor the Air Force initiated formal investigations to resolve discrepancies.

Navy appropriations. Two Navy accounts were over-disbursed. The Reserve Personnel, Navy appropriation had a negative balance of \$1.3 million. The negative balance was due to erroneous disbursements processed during November 1990. The account was reconciled in December 1990. The subappropriation for National Guard and Reserve Equipment, Marine Corps, was overdisbursed by \$5.99 million. Navy finance and accounting officials told us that the negative unliquidated obligations were due to erroneous disbursements. We were informed that although some progress is being made, the Marine Corps has been unable reconcile all erroneous disbursements. As of July 1991, this account was still overdisbursed by \$2.37 million.

Air Force appropriations. The Reserve Personnel, Air Force appropriation was overdisbursed by \$1.17 million as of November 30, 1990. We did not review Reserve and National Guard appropriations because of their small size. However, we were told by representatives at DFAS-Denver Center that the problem had not been resolved and June 30, 1991, accounting data showed a negative balance of \$1.6 million.

Defense Agencies appropriations. The Defense Agencies' Research, Development, Test and Evaluation (RDT&E) appropriation was also overdisbursed. Our review of the merged appropriation for Research, Development, Test and Evaluation (97-0400) showed a negative balance of \$56.8 million as of September 30, 1990. This appropriation had a month-end negative balance of \$30.1 million in November 1990. On July 31, 1991, the appropriation showed a \$58.05 million negative balance on Line 13, Total Obligated Balance, of the "Budget Execution Report," DD Form 1176.

Treasury regulations did not allow the RDT&E appropriation for FY 1987 to be merged into the "M" year appropriation because of the negative balance. The account custodian maintained that obligations were sufficient in FY 1987 to cover both FY 1987 and "M" year accounts, and that the accounts should be combined. It was our opinion that the combining of unreconciled accounts would only disguise the larger existing problem.

We believe the Defense Agencies' RDT&E appropriation was overdisbursed because:

- o the Air Force's subappropriation for RDT&E (97-0400-1102) was closed in FY 1990 with an "M" year negative balance of \$39.4 million.

- o overdisbursements in other subaccounts reduced the appropriation's overall net balance available to cover obligations.

- o as of November 1990, unmatched disbursements amounting to \$218 million were charged against the total RDT&E appropriation, which had not been reconciled. These disbursements could represent improper charges or duplicate payments made to vendors. When the \$218 million is subtracted from the \$187.9 million available for unliquidated obligations, a negative \$30.1 million results, causing the appropriation to close with a negative balance.

Air Force RDT&E Subappropriation. The Air Force's merged appropriation for RDT&E (97-0400-1102) closed in FY 1990 with a negative balance. The Air Force representatives at the DFAS-Denver Center stated that the reason for part of the \$39 million negative balance was a delay in correcting a \$24.5 million refund that was posted incorrectly. We obtained documentation for the \$24.5 million refund at Hanscom Air Force Base and provided it to DFAS personnel to use in correcting a portion of the balance.

Air Force personnel also said that a contract at the Electronic Systems Division, Hanscom Air Force Base, caused its

appropriation and the Defense Agencies' appropriation to appear overdisbursed. As of October 15, 1991, the contract had obligations of \$383.6 million and was funded by multiple appropriations. We did not reconcile the contract because of its large size and our deadline restrictions, and because DFAS was reconciling it.

DFAS-Columbus Center has contracted with the accounting firm of Coopers & Lybrand to reconcile contracts from the various DCMAO's now being consolidated at DFAS-Columbus Center. At the time of our audit, the Hanscom contract was under review. Resolution of the entire contract is still pending. However, we were told that modifications are being issued to correct errors in posting obligations. Work cannot be completed on disbursements until all supporting documentation is located. It appeared that the Air Force portion of the appropriation is overdisbursed because payments have been charged to incorrect fiscal years, while other appropriations have large remaining unliquidated balances.

As of August 31, 1991, Air Force financial statements showed the unmerged RDT&E account for FY 1987 to be overdisbursed by \$16 million. The "M" year account needed \$23 million in restorations to balance the account. The Comptroller of the Department of Defense approved only \$7 million in restorations for the entire RDT&E Defense Agencies appropriation.

Potential for increased violations. In the past, potential violations of the Antideficiency Act were not readily visible in "M" year accounts. Previously, the law gave agencies access to the merged surplus funds of the Treasury so that they could restore funds at the end of each fiscal year to cover upward adjustments to "M" year obligations. The new legislation (the Act) does not allow this. Unmatched disbursements and negative obligations can no longer be covered by Treasury restorations. Unmatched disbursements continue to be charged against the total account balance, while offsetting obligations are canceled annually as prescribed by the Act. Consequently, the potential has increased that appropriations may close with negative balances in the future. Treasury regulations prohibit appropriations from being merged into "M" accounts while carrying negative balances. Since the Act has dissolved "M" accounts, these balances must now be shown as negative balances. This may increase the number of Antideficiency Act violations as "M" year unliquidated obligations are canceled and accounts are closed in FY 1993. To avoid this, DoD must reduce the negative obligations and undistributed disbursements in its accounting records.

Restorations

Restorations requested by DoD's Components were not supported by official accounting records. The Components initially requested restorations of \$2.9 billion of the \$31 billion in available merged surplus funds of the Treasury to comply with bona fide need guidelines issued by the Comptroller of the Department of Defense. Our review of restorations showed that in many cases the request were not supported by obligations recorded in accounting records during the period for which applicable guidance provided. We found that only \$846 million should be restored.

The National Defense Authorization Act, Public Law 101-510, Section 1405(b)(3), canceled all Treasury merged surplus authority effective December 5, 1990. The implementing Treasury guidelines allowed the Services to restore funds for obligation adjustments that occurred between October 1 and December 5, 1990. The Treasury required that a certified report be provided by April 15, 1991, listing the total amounts to be restored and obligations canceled. The Services provided the following data as of December 31, 1990.

INITIAL DOD REQUESTS FOR RESTORATIONS AND REPORTS OF CANCELLATIONS

	<u>Restorations</u>	<u>Canceled, FY 1983 and prior years</u>
Army	\$ 508,740,000	\$ 241,360 000
Navy	619,590,000	1,188,670,000
Air Force	1,684,730,000	85,250,000
Defense agencies	56,900,000	22,420,000
Totals	<u>\$2,869,960,000</u>	<u>\$1,537,700,000</u>

We met with Comptroller of the Department of Defense officials and expressed our concern that the large amounts requested may not be justified. The Deputy Comptroller for Management Systems concurred and asked the Treasury to withhold all DoD restorations pending review of the requests. Based on the review, the DoD Components submitted revised requests for restorations and cancellations. Overall, the Components decreased their requests for restorations by about \$420 million and increased their cancellations by about \$340 million. Details are:

REVISED DOD REQUESTS FOR RESTORATIONS AND REPORTS OF CANCELLATIONS

	<u>Restorations</u>	<u>Canceled, FY 1983 and prior years</u>
Army	\$ 484,760,000	\$ 296,340 000
Navy	619,590,000	1,171,440,000
Air Force	1,299,620,000	364,560,000
Defense agencies	<u>46,000,000</u>	<u>45,490,000</u>
Totals	\$2,449,970,000	\$1,877,830,000

The difference between cancellations and restorations was \$572 million. Accordingly, the two almost offset each other.

The Principal Deputy Comptroller of the Department of Defense approved a final restoration of \$1.7 billion, which included funds to cover obligations unrecorded in accounting records and obligations incurred before October 1 or after December 5, 1990.

DOD COMPONENTS' RESTORATIONS

	<u>Supported by audit</u>	<u>Approved by DoD Comptroller</u>
Army	\$ 372,890,000	\$ 415,730 000
Navy	312,850,000	361,570,000
Air Force	143,920,000	901,110,000
Defense agencies	<u>16,810,000</u>	<u>16,810,000</u>
Totals	\$ 846,470,000	\$1,695,220,000

Appendix G summarizes supported and approved restorations by appropriation as of October 25, 1991.

The DoD Components' revised restorations appeared to be based on accounting data for December 1990 through April 1991 and additional requests from subordinate commands. Our review of restorations was based on accounting data for June 1991, which showed that although 6 months had passed, most obligations supporting the requested restorations were not recorded in accounting data that DoD reported to the Treasury. We also noted that the DoD Components' records showed a significant decrease in requirements for restorations due to deobligations. Our review of documentation was limited to the records maintained by departmental finance and accounting activities. However, because the Air Force initially requested \$1.68 billion in restorations,

we also reviewed documentation at the Air Force Systems Command's Aeronautical Systems Division and Space Systems Division, where most obligations were recorded. The results of our review of the DoD Components follows.

Army. The Army requested that \$485 million be restored. As of June 1991, Army accounting records showed requirements for only \$390 million in restorations to meet new obligations. Our review showed that \$17 million of the \$390 million was for the Army's overseas banking program and was invalid. This portion of the request was disallowed by the Comptroller's Office. We believe that \$95 million in miscellaneous requests that was not in Army accounting records should also be disallowed. However, the Comptroller approved \$43 million of these unrecorded obligations.

Navy. The Navy's request included \$404 million in restoration authority that was unrecorded in its records. A portion of the unrecorded restorations was for unobligated Extended Shipbuilding Authority, which is included in the Navy's Treasury merged surplus authority. We compensated for errors and omissions in Navy accounting balances reported to the Treasury; the Navy had understated its Extended Shipbuilding Authority request. Our review also showed \$29 million in recorded obligations that were not supported by documentation. Based on deobligations and other adjustments, the Navy required \$313 million to meet future obligations. The \$361 million in restorations approved by the Comptroller allowed an additional \$62 million in unrecorded obligations for Extended Shipbuilding Authority, and disallowed \$13 million for Ship Repair and Alteration that we considered valid.

Air Force. The Air Force's departmental accounting records did not accurately show Air Force obligations. As of September 30, 1990, Air Force "M" obligations reported to the Treasury were \$649.1 million less than obligations reported by Air Force field activities. Air Force officials had mistakenly adjusted obligations to balance their accounting system by a systematically generated factor believed to have merit. The Air Force representatives at DFAS-Denver Center conceded that their request for restoration included amounts needed to correct these erroneous adjustments to their account balances. The adjustments had accumulated for nearly 30 years and could not otherwise be supported. The misstatement of the Air Force's obligations during this time had not been recognized due to the indefinite, seemingly endless nature of "M" accounts. As of September 30, 1990, restorations of \$718.2 million, less the invalid balances discussed below, would be required to correct the Air Force's reported obligations.

Air Force request. The majority of the Air Force request fell outside the period of time that the law provided for

restoration of "M" year funds. Although the Air Force had certified the need for \$822 million, only \$143.9 million in valid upward adjustments, including cancellations, occurred after October 1, 1990. The Air Force canceled obligations as provided for in the Act, but took no action to reduce the corresponding fund authority. Therefore, the cancellations were treated as deobligations so the funds could be used. Valid adjustments were computed based on true increases in obligations less reimbursements totaling \$264.1 million, less invalid obligations of \$120.2 million that we identified during field reviews. The majority of Air Force's FY 1991 increase occurred at two locations where we identified \$208.5 million in invalid obligations. Of the \$208.5 million, \$120.2 million was for appropriations that required restorations in FY 1991.

Installation adjustments. We found that \$177.8 million of arbitrary adjustments had been made to align DCMAO payment records with accounting records at the Air Force Systems Command (AFSC) Aeronautical Systems Division (ASD) at Wright-Patterson Air Force Base, and \$30.7 million in invalid obligations at the Space Systems Division (SSD) at Los Angeles Air Force Base. SSD personnel told us that corrections have been made, but they were not included in the June 1991 data on which the Comptroller's restorations were based. The ASD adjustment was a one-time alignment of all accounts to make the values on source obligation records agree with values on payment record data from disbursing stations. The adjustments were made without reconciling the accounts as required by regulations, and AFSC refused to reverse its adjustments. Regulations provide that adjustments are to be made only after full reconciliation of accounts; however, no reconciliations were made. Therefore, the \$901 million approved by the DoD Comptroller's office included \$208.5 million of invalid and unsupported obligations. We believe that Air Force departmental accounts should be adjusted to show field obligations correctly, and that the \$208.5 million in unsupported and unreconciled adjustments be deobligated.

DoD Comptroller's justification. DoD Comptroller officials told us that all of their "M" account restorations will contain restrictions to avoid abuse. Comptroller personnel informed us that because of problems with Air Force accounts, the approved restoration was based on a combination of financial records, budget data adjustments, selected corrections to Air Force cancellations, and conversations with Air Force officials. Comptroller personnel believed it was proper to correct departmental records to increase obligation balances after December 6, 1990, and that restorations were proper, because the obligations were supported by Air Force field activities' records. They maintained that all restorations were legally justified and conducted in accordance with the standard Treasury process. Therefore, they preferred to restore funds and establish additional controls to ensure prudent use.

Defense Agencies. Washington Headquarters Services (WHS) is responsible for consolidating the Defense Agencies' data. Defense activities did not respond to WHS's request for data and documentation was not available to support most of WHS's \$46 million request for restorations. We believe that restorations should be made based on official accounting data from field activities. The request included \$7 million for the Defense RDT&E "M" year appropriation that was overdisbursed by \$67 million. The request did not include FY 1987-1988 funds that had not been merged pending resolution of the overdisbursed account. We agree with the DoD Comptroller's approval of restorations of \$16.8 million prior to closure of the Treasury account, provided the funds are withheld pending resolution of antideficiency investigations.

Other Audit Requirements

The Act required other data to be provided to Congress. Specifically, the Act requested data on the sources of funds, the average time obligated, the size of obligations, and the object classifications of obligations.

Sources of funds. Detailed information as to the sources of funds (the major weapon system or project for which the funds were appropriated) was not readily available. The Navy's accounting records contained general information based on its budget activity structure. Where detailed information was available, the source or purpose of the funds in the merged accounts varied widely. In many cases, the accounting records did not adequately show the sources of funds. No overall pattern was apparent. Included in the accounts were funds originally provided for weapon systems that were later canceled. For example, the Army records showed that funds were still obligated for the Sergeant York air defense system and the Roland missile system. Both of these systems have been canceled. Apparently, installation accounting personnel were not thoroughly reviewing merged accounts for validity.

Average time obligated and size of obligations. Because contract modifications contained funds that were different from the year of initial obligation, finance and accounting personnel had difficulty determining how long an obligation existed. After unliquidated obligations were merged, fiscal-year designations were often lost, so computer-aided analysis was ineffective. The records were manually reviewed by accounting personnel to determine the source and year designation of funds listed in the balance of the obligation. With the exception of the Navy, our computations of the average size of the Components' obligations are probably high and not representative of the total. This occurred because the other sample items for all Components except the Navy were skewed to include high-dollar items in order to

cover more of the total "M" account universe. The average life in years was not affected by this process. We determined that "M" account obligations had an average life of 5.6 years, and that original obligations had been made as early as FY 1974 (see Appendix E).

Object classifications of obligations. According to the "Department of Defense Budget and Fiscal Coding Manual," DoD Manual 7110.3-M, July 1988, object classifications (object classes) are used to record financial transactions of the goods and services for which obligations are incurred, rather than the purpose of programs served. For example, supplies and materials are classified as such, even though they may be used to assemble data processing equipment. Not all activities and agencies used the object class designation. Appendix F gives the details of obligations by object class.

Potential Monetary Benefits

As mentioned earlier, 46 audit reports were issued during the audit. Those reports recommended deobligation of obligations that were invalid. When deobligated, those funds can be used for needed similar purposes. Accordingly, the funds can be put to better use. Those potential monetary benefits were claimed in individual reports, and are not included in the \$1.6 billion in monetary benefits claimed in this report (Appendix I). These benefits will be achieved by requiring DoD Components to base their restorations on June 1991 accounting data, and on recorded obligations that are supported and are within the scope of the Act. The Comptroller of the Department of Defense has already achieved \$755 million of the \$1.6 billion in monetary benefits by reducing the Components' requests for restorations.

Conclusions

We concluded that account balances as of November 30, 1990, were materially misstated. The accounts were inadequately managed and vulnerable to abuse. The dissolution of "M" accounts by the Congress should improve the accounting structure and accuracy of accounting for funds within DoD. Even though considerable work remained to be accomplished, many DoD activities, including the Defense Mapping Agency, the United States Army Missile Command, and the Navy had begun aggressive programs to deobligate invalid funds. DoD finance and accounting activities should continue to emphasize verification of account obligations as they review and deobligate the remaining "M" accounts.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense:

a. Direct a review of remaining unliquidated merged accounts scheduled for cancellation at the end of each fiscal year and deobligate accounts with unsupported or invalid balances.

b. Direct DoD agencies to resolve all negative account balances canceled by law at the end of each fiscal year. Unreconciled accounts should be treated as receivables until it is determined whether the overdisbursements are posting errors, undistributed transactions, or actual overdisbursements with refunds due from vendors.

c. Require the Director, Defense Finance and Accounting Service to place increased emphasis on account accuracy in order to reduce DoD's undistributed disbursements.

d. Instruct the Director, Defense Finance and Accounting Service to conduct formal investigations of all overdisbursed appropriations and their subaccounts to resolve all potential violations of the Antideficiency Act.

2. We recommend that the Comptroller of the Department of Defense establish controls to:

a. Withhold or otherwise restrict the use of all restorations pending full justification and approval of unrecorded obligations.

b. Withhold restorations for overdisbursed accounts until the accounts are balanced or a formal antideficiency investigation is completed.

3. We recommend that the Comptroller of the Department of Defense require the Director, Defense Finance and Accounting Service to correct the Air Force's departmental accounting records, exclude unsupported adjustments to obligations, and reverse all improper obligation adjustments by the Air Force Systems Command, identified in this audit report.

MANAGEMENT COMMENTS

Report Detail. The Deputy Comptroller (Management Systems) stated, "In a number of instances, the report does not contain detailed data required to explain the findings"; therefore, he could neither agree nor disagree with the \$8 billion in invalid obligations or other dollar amounts in our draft report.

Overdisbursement. The Deputy Comptroller maintained that it was not appropriate to report on account balances that had not been reviewed. He stated that although we had not reviewed the Air Force Reserve appropriation, our report showed the appropriation as being overdisbursed by \$1.17 million as of November 30, 1990, and gave a tentative explanation for the negative account balance. He maintained that a discussion of the perceived problems in the Air Force Reserve Personnel appropriation is not appropriate at this time or is at least premature. The Deputy Comptroller believes these statements should be excluded from the report. He will ask the Air Force to conduct a review of the Air Force Reserve appropriation and report the results through the Defense Finance and Accounting Service.

Restorations. Regarding the DoD restorations, the Deputy Comptroller said that, in a number of instances, the draft report states or implies that restorations should be limited to obligations recorded between October 1, 1990, and December 5, 1990. Based on discussions with the General Counsel, DoD, the Deputy Comptroller disagreed with this interpretation. The Deputy Comptroller maintained that we gave no evidence for our statement that obligations were recorded after December 1990, and that IG, DoD, auditors have not furnished any such evidence in discussions.

The Deputy Comptroller stated that our discussion of \$95 million in unrecorded Army obligations should be clarified. He also indicated that even though the Army's official accounting records as of June 30, 1991, did not support the approved \$43 million in restorations, he believes that these obligations were incurred before December 5, 1990, and were therefore valid. The Deputy Comptroller asked us to delete our reference to the establishment of a separate shipbuilding account. He also stated that amounts restored for the Shipbuilding and Conversion, Navy account are based on amounts previously canceled and, by law, are still available for obligation. The Deputy Comptroller believes that whether amounts were obligated or unobligated should not be a primary consideration in the restoration of shipbuilding funds.

Monetary impact. The Deputy Comptroller further stated that potential monetary benefits claimed as a result of implementing the audit recommendations appear to be transitory. While adjustments may improve the accuracy of accounting records, funds may not be made available for better use. He asked us to recompute the restorations because of changes in Army and Air Force accounts.

Recommendations. The Deputy Comptroller concurred with Recommendations 1.a. and 1.b., which address the maintenance of account balances. The Deputy Comptroller partially concurred

with Recommendation 1.c. and stated that his office is working towards automated systems to reduce accounting errors. The Deputy Comptroller had asked the Defense Finance and Accounting Service to emphasize the accuracy of data containing unmatched disbursements. The Deputy Comptroller also partially concurred with Recommendation 1.d. concerning potential violations of the Antideficiency Act. However, the Deputy Comptroller said that the responsibility for administering and processing potential or apparent antideficiency violations rests with the DoD Components. The Deputy Comptroller will ask each DoD Component to review the specific instances we addressed. The Deputy Comptroller partially concurred with Recommendation 2.a. and had already restricted the use of restored amounts for obligations that we do not believe were recorded. He also stated that policies will be reviewed to determine if additional restrictions are required. The Deputy Comptroller partially concurred with Recommendation 2.b. The Deputy Comptroller did not believe that restorations can or should be withheld; therefore, he restored requested funds for overdisbursed accounts. He stated that payments from overdisbursed accounts would be charged to current appropriations. Finally, the Deputy Comptroller partially concurred with Recommendation 3, but asked us to revise it to limit the scope of corrections to the improper obligations that we identified during the audit. He will direct the Defense Finance and Accounting Service (DFAS) to correct the Air Force's Departmental accounting records, to exclude unsupported adjustments to obligations, and to reverse the improper obligation adjustments we identified.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Report detail. The dollar amounts contained in this report were based on summary data from official accounting reports, reviews of recorded obligations, and statistical projections derived from the 46 individual reports provided to the Services and Defense agencies during our review. All dollar amounts in our summary report have been explained to the Comptroller's staff.

Overdisbursement. Although we did not review the Air Force Reserve appropriation in detail, we have no doubt that it is overdisbursed. We agree with the Deputy Comptroller's comment that any supposition of reasons for the account's negative balance and any explanation by the Air Force; DFAS; or IG, DoD, personnel should be withheld until a formal review is conducted. It is unfortunate that 9 months have passed and the issue has not been resolved by such a review.

Restorations. Our review of the DoD restorations was conducted in accordance with the guidance contained in Treasury Bulletin No. 91-03, "Merged Surpluses, Closed Accounts, M Accounts and Fiscal Yearend Reporting," and the supporting DoD

Comptroller certifications to the Treasury that stated, "... obligations were recorded during the period October 1, 1990, through December 5, 1990." The major issue regarding the October 1 to December 5, 1990 timeframe is how much discipline should have been imposed on the restorations process. Other Federal agencies reported restorations on April 15, 1991; however, DoD did not finalize their request for Treasury warrants until September 17, 1991. Furthermore, we are concerned that the restoration process was permitted to continue after the issuance of the Treasury warrants. The Comptroller approved \$249 million in additional restoration adjustments to the 1991 year-end closing of Air Force accounts with the knowledge of the Treasury. The other monies requested by the Comptroller to offset the \$649 million understatement in the Air Force's FY 1990 accounts may represent valid obligations. However, since the errors were accumulated over a 30-year period, there is no documentation containing specific details to support them. We believe that the use of "M" year funds to correct an Air Force accounting error that was not pursued until June 1991 was inappropriate. Furthermore, making global adjustments to the accounting records without specific support for creating obligations is clearly not an accepted accounting practice.

The Deputy Comptroller's statement that there is no evidence that obligations were recorded after December 1990 is incorrect. For example, neither the Comptroller nor the Air Force took action to correct the \$649 million error in Air Force obligations until September 1991 (using June accounting data). We found no detailed documentation for individual accounts to support these increases in Air Force obligations. The adjustments were simple mathematical calculations made from computer-generated balances at departmental level. Our review showed that Air Force restorations were based on a combination of accounting data, upward adjustments of budget data, conversations with Air Force officials, and adjustments to previous cancellation data. We did not collect field-level documentation to show that the Army or Navy recorded obligations after December 1990. Our work was performed at the Defense Finance and Accounting Service Centers which maintain only summary information. Our conclusion is based on the official financial records, not on the separate requests for additional funds that the Services submitted to the Comptroller to justify their restorations. The Comptroller restored \$43 million for Army obligations and \$62 million for Navy obligations that were not supported by accounting records as of June 30, 1991. We believe that the Comptroller and the Services intend to record these obligations; when this occurs it will be after December 1990.

In our discussion of unrecorded Army restorations, the total \$112 million consists of \$95 million in unrecorded restorations plus \$17 million in improper obligations. This is the difference in the balance supported by Army accounting records and the

\$485 million that the Army asked to be restored. Only \$43 million of these unrecorded obligations were approved by the Comptroller. Our review was based on accounting records for June 30, 1991, and at least 6 months had passed since the obligations were allegedly incurred. Support for the \$43 million in obligations did not appear in Army accounting records. The balances in Army accounting records were either materially misstated, the obligations were never recorded, or the Comptroller restored \$43 million in excess of Army requirements. In any case, this was not good management practice.

References to the establishment of a separate shipbuilding account have been deleted from the report. These references resulted from discussions between IG, DoD, and Comptroller personnel on plans to offset the impact of the expiration of "M" account shipbuilding funds that may be required for up to 10 years. Our recommendations for restoration were based on Navy accounting records that supported only \$124.6 million in unobligated shipbuilding authority and \$188.2 million in contract adjustments for shipbuilding and other Navy accounts. We believe that the question of whether monies are obligated or unobligated is of primary consideration during the restoration process, since this determines both the amounts and disposition of funds to be restored. As the Deputy Comptroller stated, current DoD policy does not differentiate in the accounting for these funds. The propriety of these policy issues was not addressed during our audit, but the policies are currently under review by the General Accounting Office.

Monetary impact. Funds identified for deobligation in the 46 installation-level reports represent funds that may be put to better use through reobligation for upward adjustments of contracts instead of using current year dollars. The monetary benefits claimed in this report were computed based on the difference between restorations requested by the Services (\$2.4 billion) and what restored sums are likely to be used if obligation adjustments are appropriately controlled (\$800 million). The Deputy Comptroller requested that we revise the amounts of the Army and Air Force requests shown in our draft report. We did not recompute the Army data because we believe that it accurately represented the Army request. We were unable to confirm the final amount that the Air Force requested (page 88). Therefore, we used the data that was provided to us by the Comptroller, DoD. The total dollar amounts shown are larger than the revised accounting data provided by DFAS, which now operates the former Air Force Accounting and Finance Center. The Air Force request cited by the Comptroller appears to be composed of accounting data, budget data, and conversations between Comptroller and Air Force officials. It also includes corrections to compensate for errors in selected cancellation data previously reported by the Air Force. We believe that

monetary benefits claimed are achievable if sufficient controls are in place to preclude the improper use of restored funds. To ensure that restored funds are properly used, documentation must be maintained to provide an audit trail of the uses of the restored funds. Our audit showed over \$3 billion in invalid Air Force obligations, which should preclude the need to use restored funds to correct Air Force accounting errors.

Recommendations. The Deputy Comptroller concurred with Recommendations 1.a. and 1.b. In view of the large amounts of DoD's undistributed disbursements, DFAS must develop a viable plan to reduce these disbursements to meet the intent of Recommendation 1.c. The Deputy Comptroller has agreed to supervise the resolution of overdisbursed appropriations cited in the report (Recommendation 1.d.). We agree that responsibility for investigation and resolution of potential antideficiency violations should be determined during the resolution process for IG, DoD, Report No. APO 91-115, "Survey Report on the Review of Processing of Violations of the Antideficiency Act," July 31, 1991. However, we disagree that action should be postponed until the survey report is resolved. Positive investigative steps to confirm or resolve the overdisbursements should be initiated now.

For Recommendation 2.a., the Deputy Comptroller has assured us that restored funds will be used only to fulfill properly recorded obligations for all Services. If controls are established to ensure that the Air Force uses deobligations from invalid obligations to correct accounting errors and is precluded from using restored funds for this purpose and for additional contract adjustments, the restored funds will not be needed. In any event, any proposed use of restored funds must be closely controlled. Poorly documented requests, such as those submitted to the Comptroller to justify the restorations, should be rejected. We ask the Comptroller to assure us in his comments to this report that the controls applied over the use of restored funds will be stringent and will result in a clear audit trail for each request. This will achieve the intent of our recommendation and should result in the estimated monetary benefits cited in this report.

The Deputy Comptroller did not agree with Recommendation 2.b. that restorations should be withheld from overdisbursed accounts. However, he stated that he would require the use of current funds to meet obligations that the restorations did not cover. Because funds have now been restored, the actions proposed by the Deputy Comptroller in response to Recommendations 1.d. and 2.b. are considered adequate. We emphasize that the overdisbursed accounts must be investigated for antideficiency violations, even if those accounts are now solvent after the restorations.

For Recommendation 3, the proposed actions are satisfactory. We have revised the recommendation as requested by the Deputy Comptroller, DOD, to limit the scope of corrections to those identified by the IG during the audit. The Deputy Comptroller will direct DFAS and the Air Force to work together to correct the Air Force's Departmental accounting records, exclude unsupported adjustments to obligations, and reverse improper adjustments by the Air Force Systems Command that we identified in our report.

We request that the Comptroller provide action plans showing completion dates for implementing all recommendations in accordance with DOD Directive 7650.3. We request that the Comptroller reconsider his response to recommendation 2.a. and agree to take corrective actions that will comply with the intent of our recommendations. We also request that the Comptroller comment on the monetary benefits contained in the report, now that the computation has been clarified.

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PART III - ADDITIONAL INFORMATION

- APPENDIX A - Excerpt from Public Law 101-510,
National Defense Authorization
Act for FY 1991**
- APPENDIX B - Summary of "M" Year Obligations,
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- APPENDIX C - Projected Values of Valid and Invalid
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- APPENDIX D - Summary of Statistical Projections
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APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE AUTHORIZATION ACT FOR FY 1991

PUBLIC LAW 101-510—NOV. 5, 1990

104 STAT. 1675

sentence shall cease to apply effective as of the date of the submission of such program.

(2) For purposes of this subsection:

(A) The term "fiscal year 1992 multiyear defense program" means the multiyear defense program (including associated annexes) covering fiscal years beginning with fiscal year 1992 required (by section 114a of title 10, United States Code) to be submitted to Congress in conjunction with the President's budget for fiscal year 1992.

(B) The term "fiscal year 1991 advance procurement funds" means funds appropriated for the Department of Defense for fiscal year 1991 that are available for advance procurement.

SEC. 1403. MULTIYEAR NATIONAL FOREIGN INTELLIGENCE PROGRAM

50 USC 404b

(a) ANNUAL SUBMISSION OF MULTIYEAR NATIONAL FOREIGN INTELLIGENCE PROGRAM.—The Director of Central Intelligence shall submit to the Committees on Armed Services and Appropriations of the Senate and the House of Representatives and the Select Committee on Intelligence of the Senate and the Permanent Select Committee on Intelligence of the House of Representatives each year a multiyear national foreign intelligence program plan reflecting the estimated expenditures and proposed appropriations required to support that program. Any such multiyear national foreign intelligence program plan shall cover the fiscal year with respect to which the budget is submitted and at least four succeeding fiscal years.

(b) TIME OF SUBMISSION.—The Director shall submit the report required by subsection (a) each year at or about the same time that the budget is submitted to Congress pursuant to section 1105(a) of title 31, United States Code.

Reports

(c) CONSISTENCY WITH BUDGET ESTIMATES.—The Director of Central Intelligence and the Secretary of Defense shall ensure that the estimates referred to in subsection (a) are consistent with the budget estimates submitted to Congress pursuant to section 1105(a) of title 31, United States Code, for the fiscal year concerned and with the estimated expenditures and proposed appropriations for the multiyear defense program submitted pursuant to section 114a of title 10, United States Code.

SEC. 1404. MISSION ORIENTED PRESENTATION OF DEPARTMENT OF DEFENSE MATTERS IN THE BUDGET

10 USC 114a
note

(a) IN GENERAL.—In addition to requirements in any other provision of law regarding the format for the presentation in the budget submitted to Congress each year by the President of programs of the Department of Defense within major functional category 050 (National Defense), the President shall submit with each such budget a budget that organizes programs within such functional category on the basis of major roles and missions of the Department of Defense.

(b) EFFECTIVE DATE.—Subsection (a) shall take effect with respect to the budget submitted for fiscal year 1993.

President

SEC. 1405. CONTROLS ON THE AVAILABILITY OF APPROPRIATION ACCOUNTS

(a) PROCEDURES FOR CLOSING APPROPRIATION ACCOUNTS.—(1) Subchapter IV of chapter 15 of title 31, United States Code (other than section 1558), is amended to read as follows:

**APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE
AUTHORIZATION ACT FOR FY 1991**

104 STAT. 1676

PUBLIC LAW 101-510—NOV. 5, 1990

"SUBCHAPTER IV—CLOSING ACCOUNTS

"§ 1551. Definitions and applications

"(a) In this subchapter—

"(1) An obligated balance of an appropriation account as of the end of a fiscal year is the amount of unliquidated obligations applicable to the appropriation less amounts collectible as repayments to the appropriation.

"(2) An unobligated balance is the difference between the obligated balance and the total unexpended balance.

"(3) A fixed appropriation account is an appropriation account available for obligation for a definite period.

"(b) The limitations on the availability for expenditure prescribed in this subchapter apply to all appropriations unless specifically otherwise authorized by a law that specifically—

"(1) identifies the appropriate account for which the availability for expenditure is to be extended;

"(2) provides that such account shall be available for recording, adjusting, and liquidating obligations properly chargeable to that account; and

"(3) extends the availability for expenditure of the obligated balances

"(c) This subchapter does not apply to—

"(1) appropriations for the District of Columbia government; or

"(2) appropriations to be disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

Records

"§ 1552. Procedure for appropriation accounts available for definite periods

"(a) On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose.

"(b) Collections authorized or required to be credited to an appropriation account, but not received before closing of the account under subsection (a) or under section 1555 of this title shall be deposited in the Treasury as miscellaneous receipts

"§ 1553. Availability of appropriation accounts to pay obligations

"(a) After the end of the period of availability for obligation of a fixed appropriation account and before the closing of that account under section 1552(a) of this title, the account shall retain its fiscal-year identity and remain available for recording, adjusting, and liquidating obligations properly chargeable to that account.

"(b)(1) Subject to the provisions of paragraph (2), after the closing of an account under section 1552(a) or 1555 of this title, obligations and adjustments to obligations that would have been properly chargeable to that account, both as to purpose and in amount, before closing and that are not otherwise chargeable to any current appropriation account of the agency may be charged to any current appropriation account of the agency available for the same purpose.

"(2) The total amount of charges to an account under paragraph (1) may not exceed an amount equal to 1 percent of the total appropriations for that account.

APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE AUTHORIZATION ACT FOR FY 1991

PUBLIC LAW 101-510—NOV. 5, 1990

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"(c)(1) In the case of a fixed appropriation account with respect to which the period of availability for obligation has ended, if an obligation of funds from that account to provide funds for a program, project, or activity to cover amounts required for contract changes would cause the total amount of obligations from that appropriation during a fiscal year for contract changes for that program, project, or activity to exceed \$4,000,000, the obligation may only be made if the obligation is approved by the head of the agency (or an officer of the agency within the Office of the head of the agency to whom the head of the agency has delegated the authority to approve such an obligation).

"(2) In the case of a fixed appropriation account with respect to which the period of availability for obligation has ended, if an obligation of funds from that account to provide funds for a program, project, or activity to cover amounts required for contract changes would cause the total amount obligated from that appropriation during a fiscal year for that program, project, or activity to exceed \$25,000,000, the obligation may not be made until—

"(A) the head of the agency submits to the appropriate authorizing committees of Congress and the Committees on Appropriations of the Senate and the House of Representatives a notice in writing of the intent to obligate such funds, together with a description of the legal basis for the proposed obligation and the policy reasons for the proposed obligation; and

"(B) a period of 30 days has elapsed after the notice is submitted.

"(3) In this subsection, the term 'contract change' means a change to a contract under which the contractor is required to perform additional work. Such term does not include adjustments to pay claims or increases under an escalation clause.

"(d)(1) Obligations under this section may be paid without prior action of the Comptroller General.

"(2) This subchapter does not—

"(A) relieve the Comptroller General of the duty to make decisions requested under law; or

"(B) affect the authority of the Comptroller General to settle claims and accounts.

"8 1554. Audit, control, and reporting

"(a) Any audit requirement, limitation on obligations, or reporting requirement that is applicable to an appropriation account shall remain applicable to that account after the end of the period of availability for obligation of that account.

"(b)(1) After the close of each fiscal year, the head of each agency shall submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation accounts of that agency during the completed fiscal year. The report shall be submitted no later than 15 days after the date on which the President's budget for the next fiscal year is submitted to Congress under section 1105 of this title.

"(2) Each report required by this subsection shall—

"(A) provide a description, with reference to the fiscal year of appropriations, of the amount in each account, its source, and an itemization of the appropriations accounts;

"(B) describe all current and expired appropriations accounts;

APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE AUTHORIZATION ACT FOR FY 1991

104 STAT. 1678

PUBLIC LAW 101-510—NOV. 5, 1990

"(C) describe any payments made under section 1553 of this title;

"(D) describe any adjustment of obligations during that fiscal year pursuant to section 1553 of this title;

"(E) contain a certification by the head of the agency that the obligated balances in each appropriation account of the agency reflect proper existing obligations and that expenditures from the account since the preceding review were supported by a proper obligation of funds and otherwise were proper;

"(F) describe all balances canceled under sections 1552 and 1555 of this title.

"(3) The head of each Federal agency shall provide a copy of each such report to the Speaker of the House of Representatives and the Committee on Appropriations, the Committee on Governmental Affairs, and other appropriate oversight and authorizing committees of the Senate.

"(c)(1) The Director of the Congressional Budget Office shall estimate each year the effect on the Federal deficit of payments and adjustments made with respect to sections 1552 and 1553 of this title. Such estimate shall be made separately for accounts of each agency.

"(2) The Director shall include in the annual report of the Director to the Committees on the Budget of the Senate and House of Representatives under paragraph (1) of section 202(f) of the Congressional Budget Act of 1974 a statement of the estimates made pursuant to paragraph (1) of this subsection during the preceding year (including any revisions to estimates contained in earlier reports under such paragraph). The Director shall include in any report under paragraph (2) of that section any revisions to such estimates made since the most recent report under paragraph (1) of such section.

"(d) The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108(c) of this title.

“§ 1555. Closing of appropriation accounts available for indefinite periods

"An appropriation account available for obligation for an indefinite period shall be closed, and any remaining balance (whether obligated or unobligated) in that account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose, if—

"(1) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out; and

"(2) no disbursement has been made against the appropriation for two consecutive fiscal years.

“§ 1556. Comptroller General: reports on appropriation accounts

"(a) In carrying out audit responsibilities, the Comptroller General shall report on operations under this subchapter to—

"(1) the head of the agency concerned;

"(2) the Secretary of the Treasury; and

"(3) the President.

"(b) A report under this section shall include an appraisal of unpaid obligations under fixed appropriation accounts for which the period of availability for obligation has ended.

**APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE
AUTHORIZATION ACT FOR FY 1991**

PUBLIC LAW 101-510—NOV. 5, 1990

104 STAT. 1679

"§ 1557. Authority for exemptions in appropriation laws

A provision of an appropriation law may exempt an appropriation from the provisions of this subchapter and fix the period for which the appropriation remains available for expenditure."

(2) The table of sections at the beginning of chapter 15 of such title is amended by striking out the items relating to subchapter IV and sections 1551 through 1557 and inserting in lieu thereof the following:

"SUBCHAPTER IV-CLOSING ACCOUNTS

"1551 Definitions and application
"1552 Audit, control, and reporting
"1553 Availability of appropriation accounts to pay obligations
"1554 Audit, control, and reporting
"1555 Closing of appropriation accounts available for indefinite periods
"1556 Comptroller General reports on appropriation accounts
"1557 Authority for exemptions in appropriation laws"

(b) TRANSITION.—

(1) **APPLICATION OF AMENDMENTS.**—The amendments made by subsection (a) shall apply to any appropriation account the obligated balance of which, on the date of the enactment of this Act, has not been transferred under section 1552(a)(1) of title 31, United States Code, as in effect on the day before the date of the enactment of this section.

(2) **RESTORATION OF CERTAIN UNOBLIGATED AMOUNTS.**—The balance of any unobligated amount withdrawn under section 1552(a)(2) of title 31, United States Code, as in effect on the day before the date of the enactment of this Act, from an account the obligated balance of which has not been transferred under section 1552(a)(1) of title 31, United States Code, as in effect on the day before the date of the enactment of this section, is hereby restored to that account.

(3) **CANCELLATION OF UNOBLIGATED BALANCES.**—All balances of unobligated funds withdrawn from an account under subsection 1552(a)(2) of title 31, United States Code, as in effect on the day before the date of the enactment of this Act (other than funds restored under paragraph (2)) are canceled, effective at the end of the 30-day period beginning on the date of the enactment of this Act.

(4) **CANCELLATION OF OBLIGATED BALANCES.**—On the third September 30th after the date of the enactment of this Act, all obligated balances transferred under subsection 1552(a)(1) of title 31, United States Code, as in effect on the day before the date of the enactment of this Act, shall be canceled.

(5) **OBLIGATION OF EXISTING BALANCES.**—After the date of the enactment of this Act, an obligation of any part of a balance transferred before the date of the enactment of this Act under section 1552(a)(1) of title 31, United States Code, shall be subject to section 1553(c) of such title, as amended by subsection (a).

(6) **CANCELLATION OF OLDEST OBLIGATED BALANCES.**—(A) At the end of the 30-day period beginning on the date on which the President submits to Congress the budget for fiscal year 1992, any amount in an account established under paragraph (1) of section 1552 of title 31, United States Code, as in effect before the date of the enactment of this Act, that has been in that account as of that date for a period in excess of five years shall be deobligated and shall be withdrawn in the manner provided

31 USC 1551
note

**APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE
AUTHORIZATION ACT FOR FY 1991**

104 STAT. 1680

PUBLIC LAW 101-510—NOV. 5, 1990

in paragraph (2) of that section. Amounts so deobligated and withdrawn may not be restored.

(B) Subparagraph (A) shall not apply so as to require the deobligation of amounts—

(i) for which there is documentary evidence that payment will be required within 180 days of the date of the enactment of this Act; or

(ii) that are determined to be necessary for severance payments for foreign national employees.

(7) OBLIGATIONS AND ADJUSTMENT OF OBLIGATIONS.—(A) After cancellation of unobligated balances under paragraph (3) or cancellation of obligated balances under paragraph (4) or paragraph (6) and subject to the provisions of subparagraph (B), obligations and adjustments to obligations that would have been chargeable to those balances before such cancellations and that are not otherwise chargeable to current appropriations of the agency concerned may be charged to current appropriations of that agency available for the same purpose. Any charge made pursuant to this subsection shall be limited to the unobligated expired balances of the original appropriation available for the same purpose.

(B) Any charge made pursuant to subparagraph (A) shall be subject to the maximum amount chargeable under subsection (b) of section 1553 of title 31, United States Code, as amended by this section, and shall be included in the calculation of the total amount charged to any account under that section.

(c) CONFORMING REPEAL.—(1) Section 2782 of title 10, United States Code, is repealed.

(2) The table of sections at the beginning of chapter 165 of such title is amended by striking out the item relating to section 2782.

SEC. 1406. AUDIT OF OBLIGATED BALANCES OF DEPARTMENT OF DEFENSE

(a) AUDIT REQUIREMENT.—The Secretary of Defense shall provide for an audit of each account of the Department of Defense established under paragraph (1) of section 1552(a) of title 31, United States Code, as in effect on the day before the date of the enactment of this Act. The audit shall, with respect to each such account, identify—

(1) the balance in the account;

(2) the amount of such balance that is considered by the Secretary (as of the time of the audit) to represent amounts required for valid obligations (as supported by documentary evidence as required by section 1501 of title 31) and the amount of such balance that is considered by the Secretary (as of the time of the audit) to represent amounts for obligations that are considered no longer valid;

(3) the sources of amounts in the account, shown by fiscal year and by amount for each fiscal year; and

(4) such other matters as the Secretary considers appropriate.

(b) DEOBIGATION OF OBLIGATIONS NO LONGER VALID.—Any obligated amounts in accounts of the Department of Defense established under paragraph (1) of section 1552(a) of title 31, United States Code, that are determined pursuant to the audit under subsection (a) to represent amounts for obligations that are no longer valid shall be deobligated and canceled.

31 USC 1552
note

APPENDIX A. EXCERPT FROM PUBLIC LAW 101-510, NATIONAL DEFENSE AUTHORIZATION ACT FOR FY 1991

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(c) REPORT ON AUDIT.—Not later than December 31, 1991, the Secretary of Defense shall submit to Congress a report containing the results of the audit conducted pursuant to subsection (a). The report shall set forth—

- (1) the information required to be identified pursuant to subsection (a); and
- (2) for each appropriation account (A) the average length of time funds have been obligated, (B) the average size of the obligation, and (iii) the object classification of the obligations, all shown for total obligations and separately for valid obligations and obligations that are no longer valid.

SEC. 1407. FULL LIFE-CYCLE COST INFORMATION FOR ALL MAJOR DEFENSE ACQUISITION PROGRAMS

(a) COVERAGE FOR SYSTEMS BEFORE FISCAL YEAR 1985—Subparagraph (A) of section 2432(c)(3) of title 10, United States Code, is amended to read as follows:

"(A) A full life-cycle cost analysis for each major defense acquisition program included in the report that is in the full-scale engineering development stage or has completed that stage."

(b) DEFINITION.—Section 2432(a) of such title is amended by adding at the end the following new paragraph:

"(4) The term 'full life-cycle cost', with respect to a major defense acquisition program, has the meaning given the term 'cost of the program' in section 2434(c)(2) of this title".

(c) COORDINATION OF LIFE-CYCLE COST CRITERIA.—Section 2432(c) of such title is amended by adding at the end the following new paragraph:

"(5) The Secretary of Defense shall ensure that paragraph (4) of section 2432(a) of title 10, United States Code, as added by subsection (a)(2), is implemented in a uniform manner, to the extent practicable, throughout the Department of Defense."

(d) EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect with respect to Selected Acquisition Reports submitted under section 2342 of title 10, United States Code, after December 31, 1991.

10 USC 2432
note

SEC. 1408. FUNDS IN DEFENSE COOPERATION ACCOUNT

There is hereby authorized to be appropriated for fiscal year 1991 from the Defense Cooperation Account established under section 2608 of title 10, United States Code, as added by section 202 of Public Law 101-403, the sum of \$1,000,300,000 for programs, projects, and activities of the Department of Defense.

10 USC 114 note

SEC. 1409. CLASSIFIED ANNEX

(a) STATUS OF CLASSIFIED ANNEX.—The Classified Annex prepared by the Committee of Conference to accompany the conference report on the bill H.R. 4739 of the One Hundred First Congress and transmitted to the President shall have the force and effect of law as if enacted into law.

(b) CONSTRUCTION WITH OTHER PROVISIONS OF ACT.—The amounts specified in the Classified Annex are not in addition to amounts authorized to be appropriated by other provisions of this Act.

President

(c) DISTRIBUTION OF CLASSIFIED ANNEX.—The President shall provide for appropriate distribution of the Classified Annex, or of

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APPENDIX B. SUMMARY OF 'M' YEAR OBLIGATIONS,
NOVEMBER 30, 1990

Military Personnel

Army	\$13,296,227
Navy	13,633,395
Air Force	17,076,201
Marine Corps	4,092,994
Army, Reserves	9,494,210
Navy, Reserves	(1,264,901)
Air Force, Reserves	(1,170,836)
Marine Corps, Reserves	2,629,925
Army, National Guard	4,632
Air Force, National Guard	7,452,878
Total	\$65,244,725

Operation and Maintenance

Army	\$1,325,196,319
Navy	1,476,545,598
Marine Corps	163,531,452
Air Force	1,305,174,553
Defense Agencies	171,282,649
Army, Reserves	24,857,759
Navy, Reserves	82,567,921
Marine Corps, Reserves	4,685,614
Air Force, Reserves	16,638,162
Army, National Guard	69,555,380
Air Force, National Guard	31,105,800
Rifle Practice, Army	194,417
Claims, Defense	709,098
Military Appeals, Defense	242,701
Summer Olympics	5,922
Environmental Restoration	20,056,529
Total	\$4,692,349,874

APPENDIX B. SUMMARY OF 'M' YEAR OBLIGATIONS,
NOVEMBER 30, 1990 (cont'd)

Procurement

Aircraft Procurement, Army	\$ 246,288,253
Missile Procurement, Army	253,625,756
Weapons & Tracked Combat Vehicle Procurement, Army	380,557,823
Ammunition Procurement, Army	182,699,301
Other Procurement, Army	644,723,538
National Guard Equipment, Army	2,254,128
Aircraft Procurement, Navy	1,429,324,012
Weapons Procurement, Navy	750,787,409
Shipbuilding & Conversion, Navy	2,195,036,776
Other Procurement, Navy	1,128,519,530
Procurement, Marine Corps	366,020,044
Aircraft Procurement, Air Force	2,459,386,383
Missile Procurement, Air Force	916,097,047
Other Procurement, Air Force	639,070,979
Procurement, Defense Agencies	39,432,656
National Guard & Reserve Equipment	260,874,913
Production Act Purchases	14,399,601
Aircraft & Missiles, Navy	26,837,791
Chemical Agents and Munitions Destruction	1,953,616
Total	<u>\$11,937,889,556</u>

**Research, Development,
Test and Evaluation**

Army	\$ 292,437,097
Navy	576,893,709
Air Force	959,044,894
Defense Agencies	(32,804,885)
Developmental Test & Evaluation, Defense	20,357,298
Operational Test & Evaluation, Defense	1,654,351
Total	<u>\$1,817,582,464</u>

Military Construction

Army	\$ 33,570,136
Navy	14,264,790
Air Force	57,158,645
Defense Agencies	18,108,114
Army, National Guard	(134,875)
Air Force, National Guard	3,256,385
Army, Reserves	26,005
Navy, Reserves	129,251
Air Force, Reserves	285,132
Total	<u>\$126,663,583</u>

APPENDIX B. SUMMARY OF 'M' YEAR OBLIGATIONS,
NOVEMBER 30, 1990 (cont'd)

<u>Family Housing</u>	
Operations and Debt, Army	\$ 50,963,276
Operations and Debt, Navy	84,526,120
Operations and Debt, Air Force	30,190,556
Construction, Defense	160
Operations and Debt, Defense	3,118,170
Total	<u>\$168,798,282</u>
 <u>Other</u>	
Special Foreign Currency	<u>\$8,961,672</u>
Appropriation Total	<u>\$18,817,490,156</u>

<u>Summary by Service</u>	
Army	\$ 3,529,609,382
Navy	8,318,761,430
Air Force	6,440,766,779
Defense	528,352,565
Component Total	<u>\$18,817,490,156</u>

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APPENDIX C. PROJECTED VALUES OF VALID AND INVALID OBLIGATIONS FOR AUDITED APPROPRIATIONS

<u>Appropriation</u>	<u>Total Obligations (Nov. 30, 1990)</u>	<u>Total Obligations Audited</u>	<u>Valid Obligations Audited</u>	<u>Invalid Obligations Audited</u>	<u>Unmatched Disbursements Audited 2/ Audited</u>	<u>Line Items Audited</u>	<u>Projected Valid Obligations</u>	<u>Projected Invalid Obligations</u>	<u>Projected Valid Percentage</u>
							<u>1/</u>	<u>2/</u>	<u>3/</u>
Army Aircraft Procurement	\$ 246,288,253	\$ 142,883,438	\$ 91,325,307	\$ 51,558,131	\$ 14,278,502	149	\$ 159,000,000	\$ 87,000,000	65
Army Missile Procurement	253,625,756	127,930,475	124,865,253	3,065,222	1,628,816	96	222,000,000	32,000,000	88
Army W & T C V Procurement	380,557,823	178,118,807	147,792,267	30,326,540	3,769,957	149	249,000,000	132,000,000	65
Army Ammunition Procurement	182,699,301	128,168,667	94,029,656	34,139,011	11,991	79	135,000,000	48,000,000	74
Army Other Procurement	644,723,538	164,322,476	128,797,742	35,524,734	10,005,601	111	410,000,000	235,000,000	64
Army O & M	1,325,196,319	38,029,728	34,247,021	3,782,707	17,850	192	1,030,000,000	295,000,000	78
Army R D T & E	292,437,097	61,106,570	59,018,665	2,087,905	150,634	146	220,000,000	72,000,000	75
Navy Shipbuilding 5/ & Conversion	1,137,985,776	567,978,427	503,177,175	264,801,252	(3,665,328)	92	321,000,000	817,000,000	28
Navy Aircraft Procurement	1,429,324,012	790,879,104	427,815,734	363,063,370	132,512,894	136	432,000,000	997,000,000	30
Navy Weapons Procurement	750,787,409	475,671,792	267,501,353	208,170,439	134,789,612	87	484,000,000	267,000,000	64
Navy Other Procurement	1,128,519,530	690,659,818	382,812,472	307,847,346	145,494,150	163	383,000,000	772,000,000	34
Navy O & M	1,476,545,598	829,015,331	249,588,879	579,426,452	N/A	274	1,016,000,000	461,000,000	69
Navy R D T & E	576,893,709	394,745,743	144,231,526	250,514,217	105,163,610	154	235,000,000	342,000,000	41

APPENDIX C. PROJECTED VALUES OF VALID AND INVALID OBLIGATIONS FOR AUDITED APPROPRIATIONS (cont'd)

	Total Obligations (Nov. 30, 1990)	Total Obligations Audited	Valid Obligations Audited	Invalid Obligations Audited	Unmatched Disbursements Audited 1/ Audited 2/	Line Items Audited	Projected Valid Obligations 3/ Projected Obligations 3/ Projected Invalid Obligations 3/ Projected Valid Obligations 3/ Projected Percentage 4/
Air Force Aircraft <i>6/</i> Procurement	\$ 2,246,527,746	\$ 182,774,243	\$ 34,641,234	\$ 148,133,009	N/A	60	\$ 462,000,000 \$1,783,000,000 21
Air Force Missile Procurement	916,097,047	110,898,093	76,807,212	34,090,881	N/A	43	634,000,000 282,000,000 69
Air Force Other <i>7/</i> Procurement	635,870,979	104,682,968	99,344,501	5,338,467	N/A	66	613,000,000 23,000,000 96
Air Force <i>8/</i> O & M	1,300,111,041	107,549,872	112,002,386	(4,452,514)	N/A	816	537,000,000 762,500,000 41
Air Force <i>9/</i> R D T & E	959,780,849	(3,014,101)	55,137,900	(58,152,001)	N/A	53	475,000,000 435,000,000 49
<i>10/</i> Defense Agencies Procurement	39,432,656	8,298,842	2,227,196	6,071,646	4,067,405	60	10,200,000 29,200,000 26
Defense Agencies O & M	171,282,649	45,623,828	11,409,930	34,213,938	(180,329)	100	47,800,000 123,500,000 28
Defense Agencies R D T & E <i>10/</i>	<i>(32,804,885)</i>	<i>12,575,717</i>	<i>(1,078,445)</i>	<i>13,654,162</i>	<i>7,646,363</i>	<i>157</i>	<i>4,200,000</i> <i>(37,000,000)</i> <i>(13)</i>
Totals	\$16,061,882,203	\$5,158,899,878	\$2,845,694,964	\$2,313,204,914	\$555,691,728	3,183	\$8,079,200,000 \$8,008,200,000 50

APPENDIX C. PROJECTED VALUES OF VALID AND INVALID OBLIGATIONS FOR AUDITED APPROPRIATIONS (cont'd)

- 1/ Valid and invalid obligations audited include unmatched disbursements audited.
- 2/ Air Force information did not include unmatched disbursements.
- 3/ Amounts are the sum of projections against a universe of stratified dollar values. More larger obligations were selected for audit than smaller ones, making it necessary to weight the projections within ranges of dollar values.
- 4/ The projected valid percentage was calculated by dividing total obligations by projected valid obligations.
- 5/ The Naval Audit Service did not review \$1,057,051,000 of this appropriation's total "W" account balance. The figure shown is reduced by this amount.
- 6/ \$212,858,637 in obligations were not included in the universe for this Air Force account.
- 7/ \$3,200,000 in obligations were not included in the universe for this Air Force account.
- 8/ \$5,063,512 in obligations were not included in the universe for this Air Force account.
- 9/ A negative obligation of \$(735,955) was unauditible and was removed from the universe. This increased the universe balance.
- 10/ Defense Agencies' R D T & E total obligations audited figure includes DARPA 1987 money which never merged. The projections for R D T & E are based on the total obligations audited column, which reflects only merged funds from 1986 and prior, and valid and invalid obligations audited excluding audited 1987 funds of DARPA.

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APPENDIX D. SUMMARY OF STATISTICAL PROJECTIONS FOR APPROPRIATIONS

The IG, DoD, used results from the three service Audit Agencies, adjusted them for the November 30, 1990, end date, and combined those with the results from the Defense agencies for valid and invalid "M" account balances. Two problems are associated with the audit.

o The Naval Audit Service is in the process of auditing over \$1 billion of Shipbuilding and Conversion funds; the \$1 billion is not included in the Navy projections of this report.

o The Army Audit Agency did not audit any line items with negative balances. The impact of this is unknown, but it is likely to cause some overestimation of valid "M" account funds.

o All audits were conducted using stratified sampling methods; line items with large amounts were heavily sampled, and smaller amounts were sparsely sampled. Line items with less than \$1,000 absolute value were generally not included in the audit. We projected audit results to \$16.1 billion of the original \$18.8 billion net total (after offsets of positive and negative balances).

We expect to issue an addendum or supplementary report after we have audited an additional \$1 billion that Shipbuilding and Conversion accounts. When the audit of Shipbuilding and Conversion accounts audit is completed, over 90 percent of the accounts will have been tested. Additional testing would have required us to sample an excessive number of line items.

Appendix C shows the projections of valid and invalid amounts by appropriation. Note that some appropriations are missing because their balances had low dollar values. To keep the audit cost-effective, we did not sample those appropriations.

The three-stage stratified sample has produced an overall projected total of \$8 billion invalid and \$8.1 billion valid. We have 95-percent confidence that the invalid amount is precise within \pm \$2.2 billion, or about \pm 27 percent of the projected invalid amount.

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APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED

Army Aircraft Procurement (2031)

Fiscal year	Average size of obligation	Average line item value		Invalid obligations
		Valid obligations	item value	
1986	\$1,560,618	\$1,175,280		\$385,338
1985	916,213	458,019		458,194
1984	333,938	220,089		113,849
1983	953,603	730,196		223,407
1982	278,658	125,216		153,442
1981	1,286,114	368,937		917,177
1980	401,583	145,223		256,360
1979	17,209	0		17,209
1978	100,074	0		100,074
1977	116,937	0		116,937
1976	154,367	0		154,367
Average obligation:	\$ 958,955	\$ 612,922	\$ 346,033	2/
Average time obligated:	6.91 years	3/		

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLICATED (cont'd)

Army Missile Procurement (2032)

Fiscal year	Average size of obligation	Average line item value 1/
	Valid obligations	Invalid obligations
1986	\$1,569,779	\$1,569,397
1985	1,516,059	1,516,059
1984	1,482,644	1,475,546
1983	1,429,115	1,379,990
1982	739,470	739,470
1981	869,678	289,007
1980	127,308	127,308
1979	18,403	18,403
Average obligation:	\$1,332,609	\$1,300,680

Average time obligated: 6.92 years 3/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Army Weapons and Tracked Combat Vehicle Procurement (2033)

Fiscal year	Average size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1986	\$1,984,808	\$1,841,812	\$142,996
1985	1,347,251	1,190,368	156,883
1984	813,644	613,091	200,553
1983	817,186	477,581	339,605
1982	1,122,415	704,276	418,139
1981	1,276,492	1,249,266	27,226
1980	1,598,409	1,508,780	89,629
1979	49,880	21,547	28,333
1978	1,236,330	1,217,643	18,687
1977	969,876	0	969,876
1976	412	412	0
1975	3,219	3,219	0
1974	3,702	3,702	0
Average obligation:	\$1,195,428	\$ 991,894	2/
Average time obligated:	7.69 years	3/	
		\$203,534	

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Army Ammunition Procurement (2034)

Fiscal year	Average size of obligation	Average line item value 1/
	Valid obligations	Invalid obligations
1986	\$2,351,819	\$2,274,724
1985	2,187,902	2,163,115
1984	1,515,312	240,613
1983	564,885	342,314
1982	742,605	117,194
1981	57,667	0
1980	6,443	0
1979	1,976	1,976
1977	769,424	0
1974	112,500	0
Average obligation:	\$1,622,388	\$1,190,249
Average time obligated:	6.85 years 3/	\$ 432,139 2/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLICATED (cont'd)

Army Other Procurement (2035)

Fiscal year	Average size of obligation	Average line item value <u>1/</u>	
		Valid obligations	Invalid obligations
1986	\$1,934,616	\$1,893,385	\$ 41,231
1985	1,596,113	1,027,370	568,743
1984	907,349	841,557	65,792
1983	1,884,550	1,146,721	737,829
1982	274,703	26,938	247,765
1981	2,107,583	0	2,107,583
1980	89,665	0	89,665
1979	6,372	0	6,372
1976	181,980	0	181,980
Average obligation:	\$1,480,384	\$1,160,340	\$ 320,044 <u>2/</u>
Average time obligated:	6.59 years	<u>3/</u>	

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Army Operation and Maintenance (2020)

Fiscal year	Average size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1988	\$246,746	\$240,578	\$ 6,168
1987	131,107	117,398	13,709
1986	145,368	130,089	15,279
1985	176,376	120,060	56,316
1984	455,015	357,970	97,045
1983	141,282	141,282	0
1982	13,450	13,450	0
1980	285,625	85,109	200,516
1977	88,044	88,044	0
Average obligation:	\$198,072	\$178,370	\$ 19,702 2/
Average time obligated:	4.23 Years 3/		

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Army Research, Development, Test and Evaluation (2040)

Fiscal year	Average size of obligation	Average line item value <u>1/</u>		
		Valid obligations	Invalid obligations	\$ 17,884
1988	\$ 17,884	0	0	3,304
1987	418,401	415,097	3,304	
1986	168,893	163,250	5,643	
1985	58,662	58,637	25	
1984	575,454	574,338	1,116	
1983	301,881	301,881	0	
1982	60,809	53,688	7,121	
1981	1,543,107	1,543,107	0	
1980	10,206	10,206	0	
1979	2,315,450	2,180,485	134,965	
1977	392,514	5,424	387,090	
1974	1,087,633	1,087,633	0	
Average obligation:	\$ 418,538	\$ 404,237	\$ 14,301	<u>2/</u>

Average time obligated:
6.27 years 3/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Navy Shipbuilding and Conversion (1611) 5/

Fiscal year	Total size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1984	\$188,678,072	N/A	N/A
1983	255,904,852	N/A	N/A
1982	263,683,963	N/A	N/A
1981	201,872,018	N/A	N/A
1980	135,660,582	N/A	N/A
Average obligation:	\$ 32,281	N/A	N/A

Average time obligated:

7.2 years 2/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Navy Aircraft Procurement (1506) 5/

Fiscal year	Total size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1986	\$545,497,301	N/A	N/A
1985	366,387,335	N/A	N/A
1984	272,930,071	N/A	N/A
1983	190,561,743	N/A	N/A
1982	138,614,179	N/A	N/A
Average obligation:	\$ 88,064	N/A	N/A
Average time obligated:	7.0 years 2/		6/

**APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE
TIME OBLIGATED (cont'd)**

Navy Other Procurement (1810) 5/

Fiscal year	Total size of obligation	Average line item value <u>1/</u>	
		Valid obligations	Invalid obligations
1986	\$584,980,815	N/A	N/A
1985	348,245,185	N/A	N/A
1984	239,494,996	N/A	N/A
1983	173,862,794	N/A	N/A
1982	106,193,624	N/A	N/A
Average obligation:	\$ 54,083	N/A	N/A

Average time
obligated:

6.8 years 2/

Average line item value 1/

Average line item value 1/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Navy Weapons Procurement (1507) 5/

Fiscal year	Total size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1986	\$356,639,463	N/A	N/A
1985	162,656,491	N/A	N/A
1984	161,575,367	N/A	N/A
1983	128,976,958	N/A	N/A
1982	79,998,640	N/A	N/A
Average obligation:	\$ 147,546	N/A	N/A

Average time obligated:

6.8 years 2/

**APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE
TIME OBLIGATED (cont'd)**

Navy Operation and Maintenance (1804) 5/

Fiscal year	Total size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1988	\$348,769,506	N/A	N/A
1987	264,203,309	N/A	N/A
1986	372,356,756	N/A	N/A
1985	457,402,679	N/A	N/A
1984	513,026,966	N/A	N/A
Average obligation:	\$ 8,971	N/A	5/

Average time
obligated:
5.4 years 7/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Navy Research, Development, Test and Evaluation (1319) 5/

Fiscal year	Total size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1987	\$357,076,551	N/A	N/A
1986	271,458,559	N/A	N/A
1985	155,480,055	N/A	N/A
1984	173,271,696	N/A	N/A
1983	160,071,033	N/A	N/A

Average obligation: \$ 10,670

Average time obligated:

5.8 years 2/

Average line item value 1/

**APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE
TIME OBLICATED (cont'd)**

Air Force Aircraft Procurement (3010)

Fiscal year	Average size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1986	\$ 1,638,098	\$1,301,785	\$ 336,313
1985	2,802,220	999,172	1,803,048
1984	146,835	53,505	93,330
1983	19,897,189	74,136	19,823,053
1982	750,240	74,082	676,158
1981	502,476	1,289	501,187
1980	484,053	6,340	477,713
1979	18,172	0	18,172
1977	(16,893)	0	(16,893)
1976	74,078	0	74,078
Average obligation:	\$ 3,046,238	\$ 577,354	\$ 2,468,884 2/

Average time obligated: 7.67 years 3/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Air Force Missile Procurement (3020)

Fiscal Year	Average size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1986	\$ 4,985,522	\$4,853,093	\$ 132,429
1985	1,591,872	672,233	919,639
1984	22,805,640	4,064,556	18,741,084
1983	1,123,999	3,202,132	(2,078,133)
1982	(10,252,247)	(2,544)	(10,249,703)
1981	957,383	917,154	40,229
1978	36,086	30,312	5,774
1977	5,036	0	5,036
xx 4/	133,843	0	133,843
Average obligation:	\$ 2,579,025	\$1,786,214	\$ 792,811 2/

Average time obligated: 7.62 Years 3/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLICATED (cont'd)

Air Force Other Procurement (3080)

Fiscal year	Average size of obligation	Average line item value 1/
		Valid obligations
		Invalid obligations
1986	\$4,152,581	\$3,933,981
1985	893,845	871,776
1984	691,417	691,155
1983	1,613,155	1,245,097
1982	46,911	154,218
1981	44,871	44,871
1980	98,000	98,000
xx 1/	4,311	0
		4,311
Average obligation:	\$1,586,106	\$1,505,220
Average time obligated:	6.53 years 3/	

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APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Air Force Operation and Maintenance (3400)

Fiscal year	Average size of obligation	Average line item value	
		Valid obligations	Invalid obligations
1988	\$ 59,088	\$117,445	\$ (58,357)
1987	179,546	146,910	32,636
1986	98,106	122,030	(23,924)
1985	276,069	255,709	20,360
1984	433,717	414,237	19,480
1983	74,355	29,402	44,953
1982	184,650	36,600	148,050
1981	235,794	226,410	9,384
1980	1,761,434	7,527	1,753,907
1979	20,029	20,029	0
1978	671,735	671,735	0
xx 4/	25,507	18,289	7,218
Average obligation:	\$ 131,801	\$137,258	\$ (5,457) 2/
Average time obligated:	4.46 years	3/	

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Air Force Research, Development, Test and Evaluation (3600)

Fiscal year	Average size of obligation	Average line item value ^{1/}	
		Valid obligations	Invalid obligations
1987	\$ 1,020,060	\$ 1,272,126	\$ (252,066)
1986	(2,944,179)	1,401,923	(4,346,102)
1985	555,674	857,793	(302,119)
1984	2,826,028	2,811,473	14,555
1983	14,658	4,853	9,805
1981	10,252	0	10,252
1980	908	908	0
1977	(3,164,417)	(5,305,695)	2,141,278
xx <u>4/</u>	34,576	0	34,576
Average obligation:	\$ (56,870)	\$ 1,040,338	\$ (1,097,208) ^{2/}
Average time obligated:	5.67 Years ^{3/}		

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Defense Procurement (0300)

Fiscal year	Average size of obligation	Average line item value <u>1/</u>	
		Valid obligations	Invalid obligations
1986	\$155,577	\$58,272	\$ 97,305
1985	276,884	10,132	266,752
1984	82,235	30,608	51,627
1983	7,655	1,983	5,672
1981	42,119	0	42,119
xx <u>1/</u>	42,870	0	42,870
Average obligation:	\$138,314	\$37,120	\$101,194 <u>2/</u>
Average time obligated:	5.07 years <u>3/</u>		

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd)

Defense Operation and Maintenance (0100)

Fiscal year	Average size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1988	\$248,617	\$249,324	\$ (707)
1987	747,702	35,387	712,315
1986	46,208	3,071	43,137
1985	504,987	0	504,987
1984	261,545	0	261,545
1982	167,003	0	167,003
1978	699,576	0	699,576
Average obligation:	\$456,238	\$114,099	\$342,139 2/
Average time obligated:	4.07 years	3/	

**APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE
TIME OBLIGATED (cont'd)**

Defense Research, Development, Test and Evaluation (0400)

Fiscal year	Average size of obligation	Average line item value 1/	
		Valid obligations	Invalid obligations
1987	\$ 371,546	\$ 31,520	\$ 340,026
1986	(58,157)	8,882	(67,039)
1985	(6,458)	(126,898)	(120,440)
1984	(221,172)	68,218	(289,390)
1983	47,788	7,552	40,236
1982	97,659	8,618	89,041
1981	65,050	32,470	32,580
1980	56,192	0	56,192
1979	16,558	0	16,558
1977	129,638	(22)	129,660
xx 4/	116,433	0	116,433

Average obligation:

\$ 80,100 \$ (6,869) \$ 86,969 2/

Average time obligated:

5.18 years 3/

APPENDIX E. AVERAGE SIZE OF OBLIGATIONS BY FISCAL YEAR AND AVERAGE TIME OBLIGATED (cont'd.)

- 1/ Average valid and invalid line item values for fiscal years are computed by adding all obligations determined to be valid and those determined to be invalid, respectively, and dividing by the total number of valid and invalid obligations audited, respectively, including positive, negative and zero values. Since each line item must be either valid or invalid and must have either a positive, negative, or zero balance, the denominator used to determine the average is the same as the number of obligations audited for each fiscal year.
- 2/ Average obligation was computed by adding the total unliquidated obligations and dividing by the number of line items reviewed.
- 3/ Average time obligated was computed by adding the number of years that obligations reviewed were outstanding and dividing by the number of line items reviewed.
- 4/ Unliquidated obligations that could not be identified by fiscal year.
- 5/ Navy data includes total sizes of all obligations by fiscal year as reported by the Standard Accounting and Reporting System.
- 6/ Average obligation for Navy appropriations was computed by adding the unliquidated obligations and dividing by the number of line items as reported by STARS.
- 7/ Average time obligated for Navy appropriations was computed by adding the number of years that obligations were outstanding and dividing by the total number of line items as reported by STARS.

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS 1/

Army Aircraft Procurement

<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Personnel services and support	13 \$ 22,479	\$ 0	\$ 22,749
Contractual services and support	25 51,690,657	29,579,573	22,111,084
	26 26,599,286	20,256,157	6,343,129
Acquisition of capital assets	31 64,571,590	41,489,577	23,082,013
Totals	\$142,884,282	\$91,325,307	\$51,558,975

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Army Missile Procurement

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	25	\$ 18,364,624	\$ 18,211,725	\$ 152,899
	26	91,581,865	90,992,224	589,641
Acquisition of capital assets	31	<u>17,983,986</u>	<u>15,661,304</u>	<u>2,322,682</u>
Totals		<u><u>\$127,930,475</u></u>	<u><u>\$124,865,253</u></u>	<u><u>\$3,065,222</u></u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Army Weapons and Tracked Combat Vehicles

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	25	\$131,702,124	\$117,772,504	\$13,929,620
	26	28,398,507	13,273,718	15,124,789
Acquisition of capital assets	31	<u>18,038,176</u>	<u>16,746,045</u>	<u>1,292,131</u>
Totals		<u>\$178,138,807</u>	<u>\$147,792,267</u>	<u>\$30,346,540</u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Army Ammunition Procurement

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	25	\$ 51,525,529	\$44,182,537	\$ 7,342,992
	26	<u>76,643,138</u>	<u>49,847,119</u>	<u>26,796,019</u>
Totals		<u>\$128,168,667</u>	<u>\$94,029,656</u>	<u>\$34,139,011</u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd.)

Army Other Procurement

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	25	\$ 78,013,646	\$ 55,412,273	\$22,601,373
	26	7,233,911	265,427	6,968,484
Acquisition of capital assets	31	<u>79,075,018</u>	<u>73,120,042</u>	<u>5,954,976</u>
Totals		<u>\$164,322,575</u>	<u>\$128,797,742</u>	<u>\$35,524,833</u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)
Army Operation and Maintenance

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Personnel services and support	10	\$ 9,570	\$ 9,570	\$ 0
	12	6,621	0	6,621
Contractual services and support	21	101	0	101
	22	2,465	2,050	415
	23	23,412	22,439	973
	24	406,785	0	406,785
	25	37,237,148	34,061,436	3,175,712
	26	253,410	139,382	114,028
Acquisition of capital assets	31	80,605	3,242	77,363
	41	881	172	709
	63	8,730	8,730	0
Totals		\$38,029,728	\$34,247,021	\$3,782,707

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Army Research, Development, Test and Evaluation

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	25	\$61,026,752	\$58,939,247	\$2,087,505
	26	7,875	7,875	0
Acquisition of capital assets	31	71,943	71,543	400
Totals		\$61,106,570	\$59,018,665	\$2,087,905

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Air Force Aircraft Procurement

Object classification	Total amount audited	Valid obligations	Invalid obligations
Contractual services and support	\$ 1,083,679	\$ 1,083,679	\$ 0
25			
26	21,249,610	15,127,032	6,122,578
Acquisition of capital assets			
31	<u>160,440,955</u>	<u>18,430,523</u>	<u>142,010,432</u>
Totals	<u>\$182,774,244</u>	<u>\$34,641,234</u>	<u>\$148,133,010</u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Air Force Missile Procurement

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	26	\$ 6,260,178	\$ 5,948,306	\$ 311,872
Acquisition of capital assets	31	<u>104,637,915</u>	<u>70,858,906</u>	<u>33,779,009</u>
Totals		<u>\$110,898,093</u>	<u>\$76,807,212</u>	<u>\$34,090,881</u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Air Force Other Procurement

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	25	\$ 2,200,442	\$ 2,200,442	\$ 0
	26	76,546,777	76,498,287	48,490
Acquisition of capital assets	31	25,935,749	20,645,772	5,289,977
Totals		\$104,682,968	\$99,344,501	\$5,338,467

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)
Air Force Operation And Maintenance

<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Personnel services and support	12	\$ 2,000	\$ 2,000
Contractual services and support	21	(17,253)	(20,199) 2,946
	22	762,640	343,722 418,918
	23	11,118,485	11,272,344 (153,859)
	24	375	375 0
	25	72,234,619	88,696,013 (16,461,394)
	26	19,453,288	9,431,992 10,021,296
Acquisition of capital assets	31	<u>3,995,717</u>	<u>2,276,139</u> <u>1,719,578</u>
Totals		<u>\$107,549,871</u>	<u>\$112,002,386</u> <u>\$ (4,452,515)</u>

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Air Force Research, Development, Test and Evaluation

<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	\$ (3,014,102)	\$55,137,899	\$ (58,152,001)
Totals	\$ (3,014,102)	\$55,137,899	\$ (58,152,001)

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Defense Procurement

Object classification	Total amount audited	Valid obligations	Invalid obligations
Printing Services	10 \$ 299,188	\$ 0	\$ 299,188
Contractual services and support	25 850,829	281,424	569,405
Acquisition of capital assets	31 7,148,827	2,013,372	5,135,455
Totals	\$8,298,844	\$2,294,796	\$6,004,048

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Defense Operation And Maintenance

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Personnel services and support	11	\$ (4,149)	\$ 0	\$ (4,149)
	12	24,048,459	0	24,048,459
Contractual services and support	21	923	0	923
	23	3,065,725	0	3,065,725
84	25	17,381,440	10,185,606	7,195,834
	26	(922,655)	0	(922,655)
Acquisition of capital assets	31	1,093,106	274,658	818,448
Undefined	N/A	961,018	949,666	11,352
Totals		\$45,623,867	\$11,409,930	\$34,213,937

APPENDIX F. OBJECT CLASSIFICATIONS OF OBLIGATIONS (cont'd)

Defense Research, Development, Test and Evaluation

	<u>Object classification</u>	<u>Total amount audited</u>	<u>Valid obligations</u>	<u>Invalid obligations</u>
Contractual services and support	23	\$ 138,465	\$ 0	\$ 138,465
	25	12,419,281	(1,078,445)	13,497,726
	26	12,621	0	12,621
Acquisition of capital assets	31	<u>5,349</u>	<u>0</u>	<u>5,349</u>
Totals		<u>\$12,575,716</u>	<u>\$ (1,078,445)</u>	<u>\$13,654,161</u>

1/ The Navy could not provide object classification data for 93 percent of its records or 85 percent of the dollar value of its sample.

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APPENDIX G. SUMMARY OF DOD RESTORATIONS BY APPROPRIATION

Appropriation	Service restoration request	IG, DOD recommended restoration	Comptroller approved restorations
Army:			
Military Personnel O&M	21M2010 21M2020	\$ 3,000,000 425,517,000	\$ 3,000,000 338,502,059
W&TCV 2/ RDT&E 2/ Procurement	21M2033 21M2140	14,851,000 5,234,000	0 0
Military Construction Family Housing	21M2050 21M7025	14,096,000 22,063,000	10,659,058 20,731,216
Subtotal		\$484,761,000	\$372,892,333
Navy:			
Navy O&M	17M1804	\$ 61,355,304	\$ 37,547,423
Marine Corps O&M	17M1106	95,549	95,549
Naval Reserve O&M	17M1806	303,612	0
Aircraft Procurement	17M1506	25,036,250	0
Weapons Procurement	17M1507	20,449,565	0
Shipbuilding and Conversion	17M1611	412,245,609	259,154,339
Other Procurement	17M1810	73,470,076	0
Marine Corps Procurement	17M1109	16,053,682	16,053,682
RDT&E	17M1319	9,945,276	0
Military Construction Family Housing	17M1205 17M0703	533,459 98,616	0 0
Subtotal		\$619,586,998	\$312,850,993
			\$361,567,718

APPENDIX G. SUMMARY OF DOD RESTORATIONS BY APPROPRIATION (cont'd)

Appropriation	Service restoration request	IG, DOD recommended restoration	Comptroller approved restorations
Air Force:			
International Military E&T	\$ 241,113	\$ 0	\$ 241,113
Aircraft Procurement	534,100,000	0	220,918,549
Missile Procurement	350,013,670	60,585,987	350,013,670
Other Procurement	31,800,000	0	18,579,989
Military Construction	32,000,000	7,969,841	32,000,000
O&M	58,769,363	0	58,769,363
Military Personnel	14,423,551	75,328,466	14,423,551
RDT&E	195,802,443	0	195,802,443
Reserve Personnel	308,053	38,346	308,053
Reserve Military Construction	241,374	0	241,374
Reserve O&M	4,135,685	0	4,135,685
Air National Guard O&M	57M3840	5,482,352	5,482,352
National Guard Personnel	57M3850	198,168	0
Additional miscellaneous adjustments	72,100,000	0	198,168
Subtotal	\$1,299,615,772	5/ \$143,922,640	0/ \$901,114,310
Defense Agencies:			
Retired Pay	\$ 740,000	\$ 698,455	\$ 698,000
O&M	632,488	0	0
Procurement	329,785	0	0
National Guard and Reserve Equipment	1,427,205	589,202	589,000
Defense Production Act Purchases	6,438,879	2,500,000	2,500,000

APPENDIX G. SUMMARY OF DOD RESTORATIONS BY APPROPRIATION (cont'd)

Appropriation	Service restoration request	IG, DOD recommended restoration	Comptroller approved restorations
BDT&E Developmental T&E 7/	97M0400 28,452,871	7,180,757	7,181,000
Operational T&E	97M0450 2,355,222	2,355,222	2,355,000
Military Construction	97M0460 220,950	220,950	221,000
Family Housing	97M0500 1,942,359	881,412	881,000
Environmental Restoration	97M0706 77,102	0	0
Subtotal			
Grand Totals	<u>\$2,449,966,572</u>	<u>\$846,474,620</u>	<u>\$1,695,225,028</u>

1/ O&M: Operation and Maintenance

2/ W&TCV: Weapons and Tracked Combat Vehicles

3/ RDD&E: Research, Development, Test and Evaluation
4/ E&T: Education and Training

5/

We could not confirm the final amount of the Air Force request. The Comptroller provided us with this data. The Air Force request appears to consist of accounting data, budget data, and conversations between Office of the Comptroller and Air Force officials. It also includes corrections to missstatements in cancellations previously reported by the Air Force.

6/

Restored amounts represent the final actions taken by the Comptroller on all Air Force requests. These include both restorations authorized by Treasury warrants and additional actions to restore funds that the Comptroller approved during the year-end closing of accounts.

7/ T&E: Testing and Evaluation

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APPENDIX H. SUPPLEMENTARY REPORTS AND POINTS OF CONTACT

Department of Defense

Defense Advanced Research Projects Agency, Project
No. 1FE-3001.03

Defense Logistics Agency, Project No. 1FE-3001.02

Defense Mapping Agency Aerospace Center, Project No. 1FE-3001.01

Army

Army Audit Agency, "Merged Accounts" (CR92-600), 1991

U.S. Army Forces Command: Fort Sheridan, IL, Report No. MW 91-603

U.S. Army Training and Doctrine Command: Fort Leonard Wood,
Report No. MW 91-604

The following reports on Army merged accounts were issued at
installation level:

U.S. Army Materiel Command

U.S. Army Aviation Systems Command, St. Louis, MO, Report
No. MW 91-607

U.S. Army Missile Command, Redstone Arsenal, Huntsville, AL,
Report No. MW 91-606

U.S. Army Communications-Electronics Command, Fort Monmouth,
NJ, Report No. NE 91-601

U.S. Army Armament, Munitions and Chemical Command, Rock
Island, IL, Report No. MW 91-608

U.S. Army Troop Support Command, St. Louis, MO, Report
No. MW 91-605

Picatinny Arsenal, Dover, NJ, Report No. NE 91-600

Letterkenny Army Depot, Chambersburg, PA, Report No. NE 91-602

U.S. Army Research Office, Research Triangle Park, NC,
Report No. EC 91-604

U.S. Army Corps of Engineers, Huntsville Division, Huntsville, AL,
Report No. EC 91-603

Navy

Naval Audit Service, "Audit Report on Merged Accounts" (91-0083),
September 25, 1991

Air Force

Air Force Audit Agency, "Report of the Merged Accounts"
(No. 1265320), 1991

APPENDIX H. SUPPLEMENTARY REPORTS AND POINTS OF CONTACT (cont'd)

The following reports on Air Force merged accounts were issued at installation level:

Air Force District of Washington, 1100th National Capital Region Support Group, Bolling Air Force Base, Washington, DC, Project No. 704-1-XX

Air Force Logistics Command
Ogden Air Logistics Center, Hill Air Force Base, UT, Project No. 405-1-XX
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK, Project No. 440-1-XX
Sacramento Air Logistics Center, McClellan Air Force Base, CA, Project No. 415-1-XX
Warren Robins Air Logistics Center, Robins Air Force Base, GA, Project No. 425-1-XX
2750th Air Base Wing, Wright-Patterson Air Force Base, OH, Project No. 445-1-XX

Air Force Systems Command
Aeronautical Systems Division, Wright-Patterson Air Force Base, OH, Project No. 305-1-XX
Ballistic Missile Organization, Norton Air Force Base, CA, Project No. 311-1-XX
Electronic Systems Division, Hanscom Air Force Base, MA, Project No. 325-1-XX
Space Systems Division, Los Angeles Air Force Base, CA, Project No. 311-1-XX

Military Airlift Command
Headquarters, Military Airlift Command, Scott Air Force Base, IL, Project No. 730-1-XX
Malcolm Grow Medical Center, Andrews Air Force Base, Washington, DC, Project No. 704-1-XX
60th Military Airlift Wing, Travis Air Force Base, CA, Project No. 735-1-14
63rd Military Airlift Wing, Norton Air Force Base, CA, Project No. 725-1-XX
438th Military Airlift Wing, McGuire Air Force Base, NJ, Project No. 725-1-XX

Pacific Air Force, 15th Air Base Wing, Hickam Air Force Base, HI, Project No. 810-1-23

Strategic Air Command, 22nd Air Refueling Wing, March Air Force Base, CA, Project No. 725-1-XX

Tactical Air Command
1st Tactical Fighter Wing, Langley Air Force Base, VA, Project No. 545-1-41

APPENDIX H. SUPPLEMENTARY REPORTS AND POINTS OF CONTACT (cont'd)

4th Tactical Fighter Wing, Seymour-Johnson Air Force Base, NC,
Project No. 570-12-17
9th Air Force, Shaw Air Force Base, SC, Project No. 575-1-XX
363rd Tactical Fighter Wing, Shaw Air Force Base, SC, Project
No. 575-1-XX
554th Operations Support Wing, Nellis Air Force Base, NV,
Project No. 565-1-21
836th Air Division, Davis-Monthan Air Force Base, AZ, Project
No. 516-1-XX

U. S. Air Forces in Europe

17th Air Force, Sembach Air Base, Germany, Project No. 600-1-XX
20th Tactical Fighter Wing, RAF Upper Heyford, United Kingdom,
Project No. 616-1-XX
26th Tactical Reconnaissance Wing, Zweibrucken Air Base,
Germany, Project No. 600-1-XX
48th Tactical Fighter Wing, RAF Lakenheath, United Kingdom,
Project No. 610-1-XX
52nd Tactical Fighter Wing, Spangdahlem Air Base, Germany,
Project No. 604-1-XX
66th Comptroller Squadron, Sembach Air Base, Germany, Project
No. 600-1-XX
86th Fighter Wing, Ramstein Air Base, Germany, Project No.
600-1-XX

For copies of the above reports, please contact:

Army

Army Audit Agency
Attn: PRS
3101 Park Center Drive
Alexandria, VA 22303-1596
DSN 289-2971
(703) 756-2971

Navy

Auditor General of the Navy
P.O. Box 1206
Falls Church, VA 22041-0206
DSN 327-2626
(703) 627-6276

Air Force

AFAA/DOOQ
Norton Air Force Base
CA 92409-6001
DSN 876-8757
(714) 382-6857

Inspector General, DOD

DOD Inspector General
OAIG for Auditing, DOD
Attn: APTS Directorate
400 Army-Navy Drive
Arlington, VA 22202-2884
DSN 223-0340
(703) 693-0340

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APPENDIX I. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM THE AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
1.	Compliance. Proposed policies and procedures will improve reliability of DoD's accounting data.	Nonmonetary.
2.	Compliance. Denial of the unjustified request for restorations will result in one-time savings.	\$ 754,700.000
	Compliance. Restrictions on the use of restored funds will result in one-time savings.	848,800,000
		\$1,603,500,000 of funds put to better use.
3.	Compliance. Proposed procedures will improve reliability of DoD's accounting data.	Nonmonetary.

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APPENDIX J. ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense
Defense Finance and Accounting Service Center, Washington, DC
Defense Finance and Accounting Service Center, Denver, CO
Defense Finance and Accounting Service Center, Columbus, OH
Defense Finance and Accounting Service Center, Indianapolis, IN

Washington Headquarters Services, Washington, DC
Defense Supply Service-Washington, Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management)
U.S. Army Forces Command, Fort Sheridan, IL

U.S. Army Training and Doctrine Command
Fort McClellan, AL
Fort Leonard Wood, MO
Fort Huachuca, AZ

U.S. Army Materiel Command

U.S. Army Aviation Systems Command, St. Louis, MO
U.S. Army Missile Command, Redstone Arsenal, AL
U.S. Army Communications-Electronics Command, Fort Monmouth, NJ
U.S. Army Armament, Munitions and Chemical Command, Rock Island, IL
U.S. Army Tank-Automotive Command, Warren, MI
U.S. Army Troop Support Command, St. Louis, MO
Yuma Proving Grounds, Yuma, AZ
Picatinny Arsenal, NJ
Letterkenny Army Depot, Chambersburg, PA
U.S. Army Research Office, Research Triangle Park, NC
U.S. Army Health Services Command, Fitzsimons Army Medical Center, Denver, CO
U.S. Army Corps of Engineers, Huntsville Division, Huntsville, AL
Headquarters, U.S. Army Military District of Washington, Fort Belvoir, VA

Department of the Navy

Chief of Naval Operations, Washington, DC

Comptroller of the Navy, Washington, DC
Navy Regional Finance Center, Arlington, VA
Fleet Accounting and Disbursing Center, U.S. Atlantic Fleet, Norfolk, VA
Fleet Accounting and Disbursing Center, U.S. Pacific Fleet, San Diego, CA

APPENDIX J. ACTIVITIES VISITED OR CONTACTED (cont'd)

Fleet Accounting and Disbursing Center Detachment, Pearl Harbor, HI

Naval Sea Systems Command, Washington, DC
Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI
Naval Sea Systems Command Detachment, San Francisco, CA
Naval Sea Systems Command Detachment, Puget Sound, Bremerton, WA
Naval Sea Systems Command Detachment, Philadelphia, PA
Naval Surface Force, U.S. Atlantic Fleet, Norfolk, VA
Naval Surface Force, U.S. Pacific Fleet, San Diego, CA
Naval Submarine Force, U.S. Atlantic Fleet, Norfolk, VA
Naval Submarine Base, Bangor, Silverdale, WA
Naval Submarine Base, Groton, CT
Naval Submarine Maintenance, Engineering, Planning and Procurement, Portsmouth, NH
Trident Refit Facility, Bangor, Silverdale, WA
Navy Public Works Center, Point Mugu, CA
Navy Public Works Center, Oakland, CA
Navy Public Works Center, San Diego, CA
Navy Public Works Center, Pearl Harbor, HI
Naval Construction Battalion, U.S. Atlantic Fleet, Norfolk, VA
Naval Sea Support Center, U.S. Atlantic Fleet, Portsmouth, VA
Naval Sea Support Center, U.S. Pacific Fleet, San Diego, CA
Naval Shipyard, Norfolk, Portsmouth, VA
Naval Shipyard, Charleston, SC
Naval Shipyard, Pearl Harbor, HI
Naval Shipyard, Long Beach, CA
Naval Shipyard, Philadelphia, PA
Naval Shipyard, Mare Island, Vallejo, CA
Naval Shipyard, Puget Sound, Bremerton, WA
Supervisor of Shipbuilding, Conversion and Repair, Boston, MA
Supervisor of Shipbuilding, Conversion and Repair, Portsmouth, VA
Supervisor of Shipbuilding, Conversion and Repair, Charleston, SC
Supervisor of Shipbuilding, Conversion and Repair, New Orleans, LA
Supervisor of Shipbuilding, Conversion and Repair, San Francisco, CA
Supervisor of Shipbuilding, Conversion and Repair, Seattle, WA
Supervisor of Shipbuilding, Conversion and Repair, Groton, CT
Supervisor of Shipbuilding, Conversion and Repair, Newport News, VA
Supervisor of Shipbuilding, Conversion and Repair, Pascagoula, MS
Supervisor of Shipbuilding, Conversion and Repair, Portsmouth, NH
Supervisor of Shipbuilding, Conversion and Repair, Jacksonville, FL
Supervisor of Shipbuilding, Conversion and Repair, Bath, ME
Naval Undersea Warfare Engineering Station, Keyport, WA

APPENDIX J. ACTIVITIES VISITED OR CONTACTED (cont'd)

Naval Underwater Systems Center, Newport, RI
Naval Surface Weapons Center, Dahlgren, VA
Naval Surface Weapons Center, White Oak, MD
Naval Training Systems Center, Orlando, FL
Naval Ocean Systems Center, San Diego, CA
Strategic Systems Programs Office, Washington, DC
Pittsburgh Naval Reactor's Office, West Mifflin, PA
Naval Ship Systems Engineering Center, Philadelphia, PA
Naval Ship Weapon Systems Engineering Station, Port Hueneme, CA
Naval Ship Weapon Systems Engineering Station, Philadelphia, PA
Shore Intermediate Maintenance Activity, San Diego, CA
Naval Inactive Ship Maintenance Facility, Bremerton, WA

Naval Air Systems Command, Washington, DC
Naval Air Force, U.S. Atlantic Fleet, Norfolk, VA
Naval Air Force, U.S. Pacific Fleet, San Diego, CA
Naval Air Station, Alameda, CA
Naval Air Station, Brunswick, ME
Naval Air Station, Jacksonville, FL
Naval Air Station, Miramar, San Diego, CA
Naval Air Station, LeMoore, CA
Naval Air Station, Mayport, FL
Naval Aviation Depot, North Island, San Diego, CA
Naval Aviation Depot, Alameda, CA
Naval Aviation Depot Operations Center, Patuxent River, MD
Naval Air Test Center, Patuxent River, MD
Naval Air Engineering Center, Lakehurst, NJ
Naval Air Development Center, Warminster, PA

Space and Naval Warfare Systems Command, Washington, DC
Naval Space Command, Dahlgren, VA
Naval Electronic Systems Engineering Center, Charleston, SC
Naval Electronic Systems Engineering Center, Portsmouth, VA
Naval Electronic Systems Engineering Center, San Diego, CA
Naval Electronic Systems Engineering Center, Vallejo, CA
Naval Electronic Systems Support Center, St. Inigoes, MD
Naval Weapons Center, China Lake, CA
Naval Weapons Center, Earle, Colts Neck, NJ
Naval Explosive Ordnance Disposal Technology Center, Indian Head, MD
Naval Mission Test Center, U.S. Pacific Fleet, Point Mugu, CA
Program Executive Officer for the Cruise Missile and the
Unmanned Aerial Vehicle Joint Project, Washington, DC

Naval Facilities Engineering Command
Naval Facilities Engineering Command, Alexandria, VA
Naval Facilities Engineering Command, Atlantic Division,
Norfolk, VA
Naval Facilities Engineering Command, Southern Division,
Charleston, SC

APPENDIX J. ACTIVITIES VISITED OR CONTACTED (cont'd)

Miscellaneous

Naval Military Personnel Command, Washington, DC
Navy Automated Data Processing Selection Office, Dahlgren, VA
Naval District of Washington, Washington, DC
National Naval Medical Center, Bethesda, MD
Naval Security Group Command, Washington, DC
Naval Computers and Telecommunications Command, Washington, DC
United States Naval Academy, Annapolis, MD
Office of the Chief of Naval Research, Arlington, VA
Naval Research Laboratory, Washington, DC
Navy International Programs Office, Washington, DC
Naval Supply Systems Command, Washington, DC
Naval Regional Contracting Center, Washington, DC
Naval Regional Contracting Center, San Diego, CA
Naval Regional Contracting Center, Philadelphia, PA
Naval Supply Center, Oakland, CA
Naval Supply Center, San Diego, CA
Naval Supply Center, Jacksonville, FL
Naval Station, San Diego, CA
Naval Station, Treasure Island, San Francisco, CA
Naval Publication and Printing Support Office, San Diego, CA
Assistant Naval Ship Systems Command Technical Representative,
Pittsburgh, PA

Department of the Air Force

Air Force District of Washington, 1100th National Capital Region
Support Group, Bolling Air Force Base, Washington, DC

Air Force Logistics Command

Headquarters, Wright-Patterson Air Force Base, OH
Ogden Air Logistics Center, Hill Air Force Base, UT
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
Sacramento Air Logistics Center, McClellan Air Force Base, CA
Warner Robins Air Logistics Center, Robins Air Force Base, GA
2750th Air Base Wing, Wright-Patterson Air Force Base, OH
2762nd Logistics Squadron, Detachment 6, Norton Air Force Base, CA

Air Force Systems Command

Headquarters, Andrews Air Force Base, Washington, DC
Aeronautical Systems Division, Wright-Patterson Air Force Base, OH
Ballistic Missile Organization, Norton Air Force Base, CA
Electronic Systems Division, Hanscom Air Force Base, MA
Space Systems Division, Los Angeles Air Force Base, CA

APPENDIX J. ACTIVITIES VISITED OR CONTACTED (cont'd)

Military Airlift Command

Headquarters, Military Airlift Command, Scott Air Force Base, IL
Malcolm Grow Medical Center, Andrews Air Force Base,
Washington, DC
60th Military Airlift Wing, Travis Air Force Base, CA
63rd Military Airlift Wing, Norton Air Force Base, CA
438th Military Airlift Wing, McGuire Air Force Base, NJ
619th Military Airlift Support Squadron, Hickam Air Force Base,
HI
Pacific Air Force, 15th Air Base Wing, Hickam Air Force Base,
HI
Strategic Air Command, 22nd Air Refueling Wing, March Air Force
Base, CA

Tactical Air Command

Southwest Air Defense Sector, March Air Force Base, CA
1st Tactical Fighter Wing, Langley Air Force Base, VA
4th Tactical Fighter Wing, Seymour-Johnson Air Force Base, NC
9th Air Force, Shaw Air Force Base, SC
363rd Tactical Fighter Wing, Shaw Air Force Base, SC
554th Operations Support Wing, Nellis Air Force Base, NV
836th Air Division, Davis-Monthan Air Force Base, AZ

United States Air Forces in Europe

17th Air Force, Sembach Air Base, Germany
20th Tactical Fighter Wing, RAF Upper Heyford, United Kingdom
26th Tactical Reconnaissance Wing, Zweibrucken Air Base,
Germany
48th Tactical Fighter Wing, RAF Lakenheath, United Kingdom
52nd Tactical Fighter Wing, Spangdahlem Air Base, Germany
66th Comptroller Squadron, Sembach Air Base, Germany
86th Fighter Wing, Ramstein Air Base, Germany

Defense Agencies

Defense Advanced Research Projects Agency, Arlington, VA
Defense Mapping Agency Aerospace Center, St. Louis, MO

Defense Logistics Agency

Defense Logistics Agency, Alexandria, VA
Defense Logistics Agency, Columbus, OH:
Defense Contract Management Area Office, Cleveland, OH
Defense Contract Management Area Office, Pittsburgh, PA
Defense Contract Management Area Office, Baltimore, MD
Defense Contract Management Area Office, Manassas, VA
Defense Contract Management Area Office, Dallas, TX
Defense Contract Management Area Office, San Bruno, CA
Defense Contract Management Area Office, Bridgeport, CT
Defense Contract Management Area Office, Philadelphia, PA
Defense Contract Management Area Office, Boston, MA

APPENDIX J. ACTIVITIES VISITED OR CONTACTED (cont'd)

Defense Contract Management Area Office, Springfield, NJ
Defense Contract Management Area Office, New York, NY
Defense Contract Management Area Office, Orlando, FL
Defense Contract Management Division, Albuquerque, NM
Defense Contract Management District Mid-Atlantic,
Philadelphia, PA
Defense Contract Management District Northeast, Boston, MA
Defense Contract Management District South, Marietta, GA
Defense Contract Management District Southwest, Dallas, TX
Defense Plant Representative Office, Nutley, NJ
Defense Plant Representative Office, Valley Forge, PA
Defense Plant Representative Office, Sunnyvale, CA
Defense Plant Representative Office, Burbank, CA
Defense Plant Representative Office, St. Louis, MO
Defense Plant Representative Office, Bethpage, NY
Defense Plant Representative Office, Syosset, NY
Defense Plant Representative Office, Laurel, MD
Defense Plant Representative Office, Lynn, MA
Defense Plant Representative Office, Orlando, FL
Defense Plant Representative Office, Minneapolis, MN
Defense Plant Representative Office, Stratford, CT
Defense Plant Representative Office, Great Neck, NY

APPENDIX K. REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Assistant Secretary of the Army (Financial Management)

Department of the Navy

Assistant Secretary of the Navy (Financial Management)

Department of the Air Force

Assistant Secretary of the Air Force (Financial
Management and Comptroller)

Defense Agencies

Director, Defense Finance and Accounting Service

Director, Defense Logistics Agency

Director, Defense Mapping Agency Aerospace Center

Director, Defense Advanced Research Projects Agency

Non-DoD Agencies

Office of Management and Budget

U.S. General Accounting Office, NSIAD Technical
Information Center

Congressional Committees

Senate Subcommittee on Defense, Committee on
Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

Ranking Minority Member, Senate Committee on Armed
Services

House Committee on Appropriations

House Subcommittee on Defense, Committee on
Appropriations

Ranking Minority Member, House Committee on
Appropriations

House Committee on Armed Services

House Committee on Government Operations

House Subcommittee on Legislation

House Subcommittee on Legislation and National
Security, Committee on Government Operations

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PART IV - MANAGEMENT COMMENTS

Comptroller of the Department of Defense

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MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

(Management Systems)

DEC 3 '90

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, ODODIG

SUBJECT: Draft Audit Report on the Merged ("M") Accounts of the Department of Defense (Project No. IFE-3001)

In response to your memorandum dated November 15, 1991, this office has reviewed the subject draft report.

With some exceptions, this office generally agrees with many of the findings and recommendations of the report.

The draft report states that some restorations were for obligations not recorded within the period October 1, 1990, through December 5, 1990. The implication in the report is that restorations for amounts recorded outside that period are inappropriate. Based on discussions with the OAGC(F&IG), this office disagrees with such an interpretation. Accordingly, recommend that all references to a requirement for restorations to be recorded during the period October 1, 1990, through December 5, 1990, be deleted from the report.

Amounts indicated in the draft report as having been restored reflect preliminary amounts in some instances. Some of these preliminary amounts were subsequently changed. As such, recommend that the final report be modified to reflect the amount of restorations that were actually made.

Additional, and more detailed, comments on the findings and the recommendations contained in the report, as well as revised amounts to be included in Appendix G of the report, are contained in the attachment.

Inquiries regarding the attached comments may be directed to the Director for Accounting Policy, Mr. Nelson Toye, at (703) 695-7000 or to Ms. Susan Williams (703) 697-0536.

[Signature]
Alvin Tucker
Deputy Comptroller
(Management Systems)

Attachment

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

DOD IG DRAFT AUDIT REPORT, (PROJECT NO. 1FE-3001)

"REPORTS ON THE MERGED ("M") ACCOUNTS OF THE DEPARTMENT OF DEFENSE"

COMMENTS ON THE FINDINGS IN THE REPORT

GENERAL COMMENTS

Lack of Detail Data in the Report. In a number of instances, the report does not contain detail data required to explain the findings, therefore, we cannot agree or disagree with many of the dollar amounts contained in the report.

Reconciliation Efforts Hampered by Short Time Frame. The volume of records to be reviewed in a very short and legislatively mandated time frame precluded desired reconciliation efforts prior to making many adjustments. The DoD Components should be continuously reconciling "M" account balances to reflect correct obligation amounts, and deobligating invalid amounts.

Treatment of Amounts Not Recorded During the Period Between October 1, 1990, through December 5, 1990. In a number of instances, the draft report states, or implies, that restorations should be limited to obligations recorded during the period October 1, 1990, through December 5, 1990. Based on discussions with the OAGC(F&IG), this office disagrees with such an interpretation. Accordingly, recommend that all references, or implications, in the report regarding a requirement that restorations should have been recorded during the period October 1, 1990, through December 5, 1990, be deleted. Specifically, the following changes are recommended:

- Page ii, Executive Summary, Bullet 2, line 2. Change the words "between October 1 and December 5, 1990," to read "prior to December 6, 1990."
- Page ii, Executive Summary, Bullet 2, line 13. Delete the words "incurred before October 1990."
- Page ii, Executive Summary, Potential Benefits of Audit, line 5. Change the words "between October 1 and December 5, 1990," to read "prior to December 6, 1990."
- Page 2, line 7 and 8. Change the words "between October 1 and December 5, 1990," to read "prior to December 6, 1990."
- Page 26, Restorations Paragraph, line 6-8. Delete the comma, insert a period after the word "unjustified," and delete the rest of the sentence.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

- Page 27, line 5. Change the words "occurred between October 1 and December 5, 1990" to read "occurred prior to December 6, 1990."
- Page 28, line 18. Change the words "incurred before October 1" to read "incurred prior to December 6, 1990."
- Page 28, line 19, second chart. Delete the entire chart.
- Page 31, paragraph 2, Air Force Request, sentences one and two. Delete these sentences in their entirety.
- Page 33, DoD Comptroller's Justification, line 7 and 8. Delete the words "...or the dates that obligations were incurred."
- Page 33, DoD Comptroller's Justification, lines 9. Insert a period after "use" and delete the rest of the sentence.

SPECIFIC COMMENTS

Page i, Executive Summary, Bullet 1, second sentence. As currently written, this sentence could be interpreted to allege that the Air Force deliberately "adjusted" its records to consciously understate recorded obligations. No evidence to support such an allegation is included in the report. If the intent is to allege that the Air Force deliberately "adjusted" its records, than applicable evidence to support such a statement should be provided. If, as this office believes, the statement is intended to merely indicate that the Air Force records were inaccurate, recommend that the sentence be reworded along the following lines: "Air Force departmental records understated recorded obligations by \$649.1 million."

Page ii, Executive Summary, Bullet 2, line 11. Change "\$1.4 billion" to read "\$1.7 billion." The latter figure reflects an additional \$249 million in actual restorations to the Air Force. (An itemization of accounts and amounts restored is at Tab A.)

Page ii, Executive Summary, Bullet 2, line 13 and 14. Delete the words "or after December 1990." There is no evidence included in the report to support the statement that obligations were recorded after December 1990. Additionally, discussions with the DoDIG staff have not provided any such evidence.

Page iii, Executive Summary, Summary of Recommendations, line 10. Insert the words "the Military Departments to perform" after the word "require...." In our response to the DoDIG Survey Report No. APO 91-015, "Survey Report on the Review of Processing of Violations of the Antideficiency Act," this office stated that the Military Departments should be responsible for administering and processing potential or apparent antideficiency violation reports. (See Tab B for a

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

copy of our response.) Making this change will ensure that the recommendation is consistent with our response to the above cited audit.

Page 3, Executive Summary, Summary of Recommendations, last line. Add the words "identified in this audit report by the IG, DoD." following the word "adjustments." This office fully agrees that all improper accounting adjustments within the Department should be corrected, but believes that the recommendation should be limited to those areas addressed in this report.

Page 2, line 12. Change "\$1.4 billion" to read "\$1.7 billion." The latter figure reflects an additional \$249 million in restorations to the Air Force. (An itemization of the applicable accounts and amounts restored is at Tab A.)

Page 22, Air Force Appropriations paragraph. The draft report indicates that the Air Force Reserve appropriation was not reviewed. Yet, the report states that the Reserve Personnel, Air Force appropriation was overdisbursed by \$1.17 million as of November 30, 1990, and the problem had not been resolved and uncollected receivables caused the June 30, 1991, accounting data to show a negative balance of \$1.6 million. These statements regarding the perceived problems in the Air Force Reserve personnel appropriation would appear to be inappropriate, or at least premature, if, as stated, the appropriation was not reviewed. Recommend that these statements be excluded from the draft report.

Page 23, first full paragraph, line 2. Add the word "to" after "FY 1987."

Page 27, line 18, (chart). Change Defense Agencies restorations to read "\$56,900,000" and, in line 19 (totals), change the total restorations to read "\$2,869,960,000."

Page 28, first chart, line 8. Change the Army restorations to read "\$484,546,000." This change is based on the total that was requested from Treasury to be restored for the Army--see Tab C.

Page 28, first chart, line 10. Change the Air Force restorations to read "\$1,299,616,000."

Page 28, first chart, line 12. Change the total restorations in line 12 to read "\$2,449,752,000." (A revised Appendix G itemizing Air Force accounts and amounts is at Tab D.)

Page 28, line 14. Change "only \$95 million" to read "\$572 million." Delete the next sentence.

Page 28, line 16. Change "\$1.4 billion" to read "\$1.7 billion." This change encompasses an additional amount of restorations that the Air Force requested in October 1991.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

Page 28, line 18. Delete the words "or after December 5, 1990." There is no evidence included in the report to support the statement that obligations were incurred after December 5, 1990. Additionally, discussions with the DoDIG staff have not provided any such evidence.

Page 29, line 2. Change "September 20, 1991" to read "October 25, 1991."

Page 30, Army, line 2. The basis for the stated amount of "\$95 million" is unclear. If it is the difference between Army's original request for restorations and the amounts restored, it should be \$68 million.

Page 30, Army, line 4 and 5. This office believes that the \$43 million in unrecorded obligations represents valid obligations. As a valid obligation incurred prior to December 5, 1990, such amounts were eligible to be funded from restorations.

Page 30, paragraph 1, Navy, sentence 3. Delete this sentence. This office has no information to indicate that a separate account will be established for extended shipbuilding authority nor does the report offer any supporting evidence.

Page 30, Paragraph 1, Navy, sentence 7. Amounts restored for the Shipbuilding and Conversion, Navy (SCN) account were based on amounts previously cancelled, but by law still available for obligation. Thus, this office believes that whether amounts were obligated or unobligated, were not, and should not have been, a primary consideration.

Page 33, Installation Adjustments, line 1. Change "\$652 million" to read "\$901 million." This reflects the total amount that the Air Force received in restorations via the warrant process (\$652 million) and an adjustment on the FMS Form 2108 (\$249 million). (See an itemized list at Tab A.)

Page 33, DoD Comptroller's justification, lines 9-11. As indicated earlier, recommend that a period be inserted after the word "use" on line 9, and that the remainder of the sentence be deleted. If this is not done, then recommend that the words "by not funding valid obligations" be added at the end of the sentence on line 11.

Page 36 and 37, Potential Monetary Benefits paragraph. Potential monetary benefits claimed as a result of implementing audit-recommended adjustments appear to be transitory. Most of the transactions are accounting entries involving expired accounts. While these adjustments may improve the accuracy of accounting records, they should not be expected to make funds available for better uses. It is not clear how the \$527 million or the \$1.12 billion in monetary benefits was computed. Consequently, this office is unable to confirm these amounts.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

Additionally, these amounts may need to be recomputed because of the change in the restorations requested by the Army and the additional restorations provided to the Air Force.

Page 38, Recommendation 1d, line 1. Delete the words "Director, Defense Finance and Accounting Service" and insert the words "Military Departments." In our response to the DoDIG Survey Report No. APO 91-015, "Survey Report on the Review of Processing of Violations of the Antideficiency Act," this office stated that the Military Departments should be responsible for administering and processing potential or apparent antideficiency violation reports. (See Tab B for a copy of our response.) Making this change will ensure that the recommendation is consistent with our response to the above cited audit.

Page 38 and 39, Recommendations 2, 2a, 2b, and 3. In order to reduce confusion regarding the office of primary responsibility for the recommendations, suggest that:

- Recommendation 2 and recommendation 2a be combined and renumbered as 1e.
- Recommendation 2b be renumbered as 1f and the words "Establish controls over DoD restorations to" be added immediately prior to the word "Withhold."
- Recommendation 3 be renumbered as 1g. Also, recommend deletion of the period after "Command" and insertion of the words "that the IG, DoD has identified in this audit report." We agree with the intent of the recommendation, but cannot ensure compliance with the recommendation as written.

Page 97, Appendix G, Summary of DoD Restorations by Appropriation, September 20, 1991 (Army). Change the restoration amount in column 1 (Service restoration request) to read "\$425,302,000" for the O&M appropriation, 21M2020. Change the total amount requested to be restored to Army accounts to read "\$484,546,000." This change is based on the amount of restorations requested from Treasury on September 20, 1991. A copy of the request is at Tab C.

Page 98, Appendix G, Summary of DoD Restorations by Appropriation, September 20, 1991 (Air Force). Change dates, amounts requested, and amounts restored to agree with those amounts shown in the attachment at Tab D. Also change the name of the Military Construction account for Reserve personnel and the appropriation number for the Air National Guard O&M account as indicated.

Page 105, Appendix I, Summary of Potential Monetary and Other Benefits Resulting from the Audit, Recommendation Reference 2. It is unclear as to how the benefit of \$1,126,280,000 was computed. Consequently, this office is unable to confirm this

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

amount. Additionally, this amount may need to be recomputed because of the change in the restorations requested by the Army and the additional restorations provided to the Air Force.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

RECOMMENDATIONS

RECOMMENDATION 1a. [That the Comptroller of the Department of Defense] Direct a review of remaining unliquidated merged accounts scheduled for cancellation at the end of each fiscal year and deobligate accounts with unsupported or invalid balances.

DoD COMPTROLLER RESPONSE. Concur.

RECOMMENDATION 1b. [That the Comptroller of the Department of Defense] Direct DoD Agencies to resolve all negative balances canceled by law at the end of each fiscal year. Unreconciled accounts should be treated as receivables until it is determined whether the overdisbursements are posting errors, undistributed transactions, or actual overdisbursements with refunds due from vendors.

DoD COMPTROLLER RESPONSE. Concur.

RECOMMENDATION 1c. [That the Comptroller of the Department of Defense] Require the Director, Defense Finance and Accounting Service to place increased emphasis on account accuracy in order to reduce DoD's undistributed disbursements.

DoD COMPTROLLER RESPONSE. Partially concur. Improving the accuracy of data in the Department's financial systems requires increased attention by various communities throughout the Department--including those outside the Department's financial community. The Department is working toward automated systems which are expected to eliminate the need for reentering various data, and thereby reduce the chances of errors. However, until many of these automated solutions are available, the Department must expect that errors will continue to occur. In the meantime, this office will request that the Defense Finance and Accounting Service place additional emphasis on the accuracy of data contained in the Department's financial systems.

RECOMMENDATION 1d. [That the Comptroller of the Department of Defense] Instruct the Director, Defense Finance and Accounting Service to conduct formal investigations of all potential violations of the Antideficiency Act.

DoD COMPTROLLER RESPONSE. Partially concur. As indicated previously, in response to DODIG Survey Report No. APO 91-015, "Survey Report on the Review of Processing of Violations of the Antideficiency Act," this office believes that the responsibility for administering and processing potential or

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

apparent antideficiency violations rests with the DoD Components. (A copy of our response is attached at Tab B.) This office will request that each of the applicable DoD Components perform a review regarding the specific instances addressed in this report and report the results of their review to the DoD Comptroller (through the Defense Finance and Accounting Service).

RECOMMENDATION 2a. [That the Comptroller of the Department of Defense] Establish controls over DoD restorations to withhold or otherwise restrict the use of all restorations pending full justification and approval of unrecorded obligations.

DOD COMPTROLLER RESPONSE. Partially concur. This Office has already imposed various restrictions on the use of restored amounts which the DoDIG believes may not have been recorded. These restrictions will be reviewed to determine if additional restrictions are required.

RECOMMENDATION 2b. [That the Comptroller of the Department of Defense] Withhold restorations for overdisbursed accounts until the accounts are balanced or a formal antideficiency investigation is completed.

DOD COMPTROLLER RESPONSE. Partially concur. This Office does not believe that restorations can, or should, be withheld. However, this Office, can, and will, require that payments from overdisbursed accounts be charged to current accounts.

RECOMMENDATION 3. [That the Comptroller of the Department of Defense] Require the Director, Defense Finance and Accounting Service to correct the Air Force's departmental accounting records, exclude unsupported adjustments to obligations, and reverse all improper obligation adjustments by the Air Force Systems Command.

DOD COMPTROLLER RESPONSE. Partially concur. The Comptroller of the Department of Defense will direct the Defense Finance and Accounting Service and the Air Force to work together to correct the Air Force's departmental accounting records, exclude unsupported adjustments to obligations, and reverse improper obligation adjustments by the Air Force Systems Command that the IG, DoD has identified in this report.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

YEAR END CLOSING STATEMENT

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JAHRE DER MUSIK

FIVE READING

APPROPRIATION OR FUND SOURCE		PENDING UNEXPIRED BAL.		UNEXPIRED BAL. TRANSFERRED TO "T" ACCTS		POSTCLOSING UNEXPIRED BAL.		OTHER AUTORIZATIONS		REIMBURSEMENTS PAID AND BALANCES		UNFILLED CUSTOMER ORDERS	
(1)	(2)(CODE 00)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)(CODE 70)	(13)	
57	I 9955			525,846.40	60	60	515,644.48	60	60	200.00	60	60	

THIS DRAWS THE PULLING:

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CLOSING GENERAL FEE ACCOUNT 51 X 1960 IN ACCORDANCE WITH SECTION 105 OF THE TAX ACT OF 1954 DATED OCT 9.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE
WASHINGTON, DC 20301-1100

OCT 23 1991

(Management Systems)

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT POLICY AND
OVERSIGHT, INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Survey Report on the Review of Processing of Violations
of the Antideficiency Act (Report Number 91-015)

This is the Comptroller, Department of Defense response to the subject DoDIG survey report. We note that the comments this office provided on the draft report have been included in the final report. We also acknowledge the changes made to the report since the March 28, 1991, draft version.

Except for the additional comments provided in the attachment, our position remains unchanged. As indicated previously, we believe that the responsibility for administering and processing potential or apparent antideficiency violation reports belongs with the DOD Components, not with personnel in the Office of the Secretary of Defense or the Defense Finance and Accounting Service.

We appreciate the opportunity to comment on the final report. Our point of contact is Ms. Susan Williams, extension 70538.



Marvin Tucker
Deputy Comptroller
(Management Systems)

Attachment

cc: Assistant Secretary of the Army (PM)
Assistant Secretary of the Navy (PM)
Assistant Secretary of the Air Force (PM&C)
Directors of Defense Agencies
Director, Washington Headquarters Services

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

DODIG SURVEY REPORT - DATED JULY 31, 1991
REPORT NO. APO 91-015

"SURVEY REPORT ON THE REVIEW OF PROCESSION
OF VIOLATIONS OF THE ANTIDEFICIENCY ACT"

DEPARTMENT OF DEFENSE COMMENTS

RECOMMENDATIONS

RECOMMENDATION 1: That the Comptroller, Department of Defense:

1. Establish a cadre within the Office of the Comptroller, DoD, responsible for administering and processing all potential/apparent Antideficiency Act Violations, Title 31 U.S.C., reported by all DoD Components and:

a. Assign a case control number on all potential/apparent Antideficiency Act Violations as they are reported by any DoD Component via flash report, formal report, investigative or audit report, hotline calls or any other source within or outside the DoD.

b. Monitor and administer all cases until closed. If found to be invalid, close the case and include a summary of the justification and other pertinent data such as location, contacts, etc. If found to be valid, report it to the President and the Congress as required under Title 31 U.S.C.

c. Enter into a Memorandum of Understanding with the General Counsel, DoD, concerning the sharing of responsibilities for the administration, control and reporting of potential/apparent Antideficiency Act Violations.

DoD Response: Partially concur.

The Comptroller, DoD continues to oppose the creation of an OSD staff element to monitor Antideficiency Act matters. That responsibility has rested, and should continue to rest, with the applicable DoD Components. As indicated in the Comptroller, DoD response to the draft report, responsibility for processing final violation reports was transferred from the Office of the Deputy Comptroller (Management Systems) to the Defense Finance and Accounting Service. Prior to the transfer, the Office of the Deputy Comptroller (Management Systems) maintained a log to record and track reported violations. The Defense Finance and Accounting Service is expected to do the same.

With respect to the recommendation to monitor reported Antideficiency Act violations, such a requirement is planned to

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

be emphasized to the DoD Components and the Defense Finance and Accounting Service, as applicable. This requirement is planned to be incorporated into the next revision to DoD Directive 7200.1, "Administrative Control of Appropriations."

In regards to the recommendation to enter into a Memorandum of Understanding with the General Counsel, DoD, concerning the sharing of responsibilities for the administration, control and reporting of potential/apparent Antideficiency Act Violations, this recommendation appears unnecessary. No specific difficulty between the Office of the Deputy Comptroller (Management Systems) and the General Counsel, DoD appeared to exist. Further, unlike the Office of the Deputy Comptroller (Management Systems), the Defense Finance and Accounting Service, which is now responsible for processing reported violations, has its own General Counsel staff to review applicable issues prior to forwarding reported violations to the Comptroller, DoD.

RECOMMENDATION 2: Revise DoD Directive 7200.1, "Administrative Control of Appropriations," dated July 27, 1987, to include:

- a. Clarification of reporting requirements relative to reporting potential/apparent Antideficiency Act violations of Title 31 U.S.C.
- b. Provision for all DoD Components to revise their individual instructions/regulations as necessary to conform to the changes made.
- c. Assessment of a mandatory penalty (e.g., forfeiture of pay for a designated period) if responsible oversight or management personnel do not report a violation that they were aware had occurred.
- d. Administration of penalties in a consistent and appropriate manner relative to the severity of the violation.

DoD Response: Partially concur. DoD Directive 7200.1 is planned to be revised to require Components to assign case control numbers to potential/suspected Antideficiency Act violations and monitor each case until closed. Consequently, DoD Components will be required to revise internal instructions and procedures, as applicable, to be consistent with the revised Directive. The anticipated completion date for the issuance of a proposed revision to the Directive is March 31, 1992.

Recommendations 2.c and 2.d, were revised in the final report as follows:

2. c. Develop penalty guidelines (i.e., an appropriate range of penalties that would include, for example, forfeiture of pay for a designated period) to be imposed when responsible

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

oversight or management personnel do not timely report a violation that they were aware had occurred.

2. d. Use these guidelines to assure that penalties are imposed and administered in a consistent and appropriate manner relative to the severity of the violation.

DOD Response: The Office of the Deputy Comptroller (Management Systems) plans to issue a memorandum to the Components requiring a review of internal policies regarding the imposition of penalties on persons found to be responsible for violations. The anticipated completion date for issuance of a memorandum is February 29, 1992. However, specific comments on, or suggestions regarding, the types and degrees of punishments to be imposed are matters that should be addressed only by the Office of General Counsel.

RECOMMENDATION 3. Pending revision of the DoD Directive 7200.1, inform the DoD community by memorandum that penalties should be aggressively applied commensurate with the severity of the violations, and possibly cite examples of some of the penalties that should be imposed. Include in the memorandum some of the common problem areas (e.g., minor/major construction, inappropriate fund use, exceeding regulatory limits, exceeding allowance, poor implementation of fund control and command influence) that have been the reasons for the violations reported during the past 3 years.

DOD Response: As indicated in response to the revised recommendations 2.c and 2.d above, the Office of the Deputy Comptroller (Management Systems) plans to address this issue in a memorandum to the DoD Components. The memorandum will indicate that penalties should be aggressively applied. The memorandum also will provide examples of some of the problem areas. Specific comments on, or suggestions regarding, the types and degrees of punishments to be imposed are matters that should be addressed only by the Office of General Counsel.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)



COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

SEP 20 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)

SUBJECT: Requested Restoration of Amounts from Merged Surplus

The transition provisions of Public Law 101-510 permitted the restoration of amounts, from merged surplus, required for obligational adjustments made during the period of October 1, 1990 through December 5, 1990.

On August 30, 1991, representatives from our staffs met to discuss the merits of using DD Form 1176, "Report on Budget Execution," balances as a baseline for determining amounts to be restored rather than amounts previously reported by the Army. Our staffs also met on September 4, 1991, to review additional clarification information.

As a result of these meetings, I have asked the Treasury Department to issue a Warrant for \$415.7 million (copy attached).

Attached for your information is a summary of amounts initially requested, and those approved for restoration. Transactions requiring the use of amounts restored from merged surplus shall be fully documented, and applicable documentation must be kept on hand for subsequent review and audit. Where the attachment identifies specific amounts were not approved, the Army should initiate action to deobligate the applicable amounts from the account indicated and reestablish the obligation in a current appropriation, if appropriate.

Approval of the restoration of amounts shown on the attachment does not constitute approval of individual proposed obligation adjustments. Adjustments for contract changes in excess of \$4 million require the prior approval of the DoD Comptroller. Adjustments for any purpose in excess of \$25 million require the prior notification of the Congress.

Questions regarding this memorandum may be directed to Mr. Nelson Toye on 695-7000 or Mr. Adam Shaw on 697-0536.

Donald B. Shycoff
Donald B. Shycoff
Principal Deputy Comptroller

Attachments

**MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF
DEFENSE (cont'd)**

**DISPOSITION OF AMOUNTS REQUESTED TO BE RESTORED
FROM MERGED SURPLUS
AMOUNTS (\$)**

<u>APPROPRIATION SYMBOL</u>	<u>AMOUNTS REQUESTED *</u>	<u>AMOUNTS APPROVED</u>	<u>AMOUNTS NOT APPROVED</u>
21M2010	\$ 3,000	\$ 3,000	
21M2020	154,100 207,000 7,041 17,000 14,284 14,642 6,404 4,831	154,100 1/ 207,000 2/ 4,241 17,000 14,284 14,642 6,404 4,831	\$ 2,800 3/ 17,000 4/ 14,284 5/ 14,642 6/
21M2031	-0-		
21M2032	-0-		
21M2033	14,851		14,851 7/
21M2040	5,234		5,234 8/
21M2050	9,500 4,596	9,500 2/ 4,596	
21M2065	-0-		
21M2070	-0-		
21M2080	-0-		
21M2085	-0-		
21M2086	-0-		
21M2087	-0-		
21M0702	22,063	3,900 1/ 18,163 2/	
Total Requested	\$484,546	\$415,735	\$68,811

* Amounts correspond with Army listing provided in May 1991.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

- 1/ Available only for foreign national severance payments. This amount is to be transferred to a new foreign national severance pay account, expected to be established in FY 1992.
- 2/ Available only for the payment of variances between budgeted and actual foreign currency exchange rates consistent with existing DoD policies and congressional authorization. Obligations and disbursements against these amounts must be documented and an audit trail must be separately maintained and be readily available for review.
- 3/ Missing and rejected cross-disbursing vouchers are not a valid basis for restoration. Restorations must be supported with documented obligations.
- 4/ The Army staff indicated that funds requested for the banking program are no longer required.
- 5/ Upward adjustments in anticipation of "M" year open allotment disbursements is not a valid reason for restorations. Obligations must have been recorded and documented.
- 6/ Restatement of obligations previously adjusted in prior years is not a valid basis for requesting restoration. Obligations must have been recorded and documented.
- 7/ The Army staff has advised that there no longer is a need for these funds.
- 8/ Recording obligations in anticipation of "M" year liability is not a valid basis for requesting restoration.

MANAGEMENT COMMENTS: OFFICE OF THE COMPTROLLER, DEPARTMENT OF DEFENSE (cont'd)

SUMMARY OF DOD RESTORATIONS BY APPROPRIATION, OCTOBER 25, 1991

<u>Appropriation Name</u>	<u>AMOUNTS (\$)</u>	<u>Service Restoration Request</u>	<u>IG, DoD-Recommended Restorations</u>	<u>Comptroller-Approved Restorations</u>
IMET, 57M1081	\$241,113	\$0	\$241,113	
Aircraft Procurement, 57M3010	534,100,000	0	220,918,549	
Missile Procurement, 57M3020	350,013,670	60,585,987	350,013,670	
Other Procurement, 57M3080	31,800,000	0	18,579,989	
Military Construction, 57M3300	32,000,000	7,969,841	32,000,000	
OSM, 57M3400	58,769,363	0	58,769,363	
Military Personnel, 57M3500	14,423,551	75,328,466	14,423,551	
RDT&E, 57M3600	195,802,443	0	195,802,443	
Reserve Personnel, 57M3700	308,053	38,346	308,053	
Reserve Military Construction, 57M3730	241,374	0	241,374	
Reserve OSM, 57M3740	4,135,685	0	4,135,685	
National Guard OSM, 57M3840	5,482,352	0	5,482,352	
National Guard Personnel, 57M3850	198,168	0	198,168	
Additional Miscellaneous Adjustments	72,100,000	0	0	
Subtotals	\$1,299,615,772	\$143,922,640	\$901,114,310	

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Merged Accounts of the Department of Defense

B. DATE Report Downloaded From the Internet: 06/23/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 06/23/99

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